

**OFFERING CIRCULAR  
FOR LISTING PURPOSES ONLY**

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



## **Banco Fibra S.A.**

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

### **Medium-Term Note Programme for the issue of Notes due from 30 days from the date of issue**

Under the Medium-Term Note Programme (the "Programme") Banco Fibra S.A., acting either through its principal office in Brazil or its Cayman Islands branch (the "Issuer," "Banco Fibra" or the "Bank"), may from time to time issue Medium-Term Notes that rank as senior obligations of the Issuer (the "Senior Notes") or subordinated obligations of the Issuer (the "Subordinated Notes" and together with the Senior Notes, the "Notes") up to a maximum aggregate nominal amount of U.S.\$1,000,000,000 (or the U.S. dollar equivalent of Notes denominated in other currencies). Notes may be denominated in the Specified Currencies referred to herein, as specified in a supplement to this Offering Circular (a "Pricing Supplement"), which will contain the terms of, and pricing details for, each issue of Notes.

Notes will have maturities from 30 days from their issue date (except as set out herein) and may be subject to redemption in whole or in part, as specified in the applicable Pricing Supplement. Notes may be either interest bearing at fixed or floating rates or non-interest bearing and may be repayable at par, at a specified amount above or below par or at an amount determined by reference to a formula, in each case with terms as specified in the applicable Pricing Supplement.

Notes will be issued in one or more series (each a "Series"). Each Series shall be all in bearer form or all in registered form and may be issued in one or more tranches (each a "Tranche") on different issue dates and on terms otherwise identical (except in relation to interest commencement dates and matters related thereto). Subordinated Notes will only be issued in registered form.

The Notes will be issued on a continuing basis to or through Standard Bank Plc and other dealers appointed in respect of the Programme or a particular Tranche (each a "Dealer" and together the "Dealers").

*Prospective investors should have regard to the considerations described under "Risk Factors."*

Application has been made to admit the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange (the "Euro MTF"), which is not a regulated market (as defined in Article I(13) of Directive 93/22/EEC). In relation to Notes listed on the Luxembourg Stock Exchange, this Offering Circular is valid for a period of 12 months from the date hereof and constitutes a prospectus for the purposes of the Luxembourg Act dated July 10, 2005 on prospectuses for securities, as amended. Notes issued pursuant to the Programme may be listed on one or more stock exchanges or may be unlisted, as specified in the applicable Pricing Supplement, which constitutes the final terms for the purposes of listing the Notes on the Luxembourg Stock Exchange. In respect of Notes of any Series initially listed on the Luxembourg Stock Exchange or any stock exchange in the European Union, the Issuer may seek to terminate such listing and list such Notes on an alternative stock exchange outside the European Union in the event that the maintenance of such listing becomes unduly onerous.

Notes of each Tranche of each Series to be issued in bearer form ("Bearer Notes" comprising a "Bearer Series") will initially be represented by interests in a temporary global Note or by a permanent global Note, in either case in bearer form (a "Temporary Global Note" and a "Global Note," respectively), without interest coupons, which will be deposited with a common depository on behalf of Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and Euroclear Bank S.A./N.V. ("Euroclear") on the relevant issue date. Interests in a Temporary Global Note will be exchangeable, in whole or in part, for interests in a Global Note on or after the date 40 days after the later of the commencement of the offering and the relevant issue date (the "Exchange Date"), upon certification as to non-U.S. beneficial ownership. Definitive Bearer Notes will only be available in certain limited circumstances as described herein.

Notes of each Tranche of each Series to be issued in registered form ("Registered Notes" comprising a "Registered Series") and which are sold in an "offshore transaction" within the meaning of Regulation S ("Regulation S") under the U.S. Securities Act of 1933, as amended (the "Securities Act"), will initially be represented by interests in a definitive global unrestricted Registered Note (each a "DTC Unrestricted Global Note"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") on its issue date. Until the expiration of 40 days after the later of the commencement of the offering of a Tranche of a Registered Series and the issue date thereof, beneficial interests in a DTC Unrestricted Global Note may be held only through Euroclear or Clearstream, Luxembourg. Notes of each Tranche of each Registered Series sold to a qualified institutional buyer within the meaning of Rule 144A ("Rule 144A") under the Securities Act, as referred to in, and subject to the transfer restrictions described in "Subscription and Sale" and "Transfer Restrictions," will initially be represented by a definitive global restricted Registered Note (each a "DTC Restricted Global Note" and together with any DTC Unrestricted Global Notes, the "DTC Global Notes"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC on its issue date. Beneficial interests in a DTC Unrestricted Global Note and a DTC Restricted Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including depositories for Clearstream, Luxembourg and Euroclear. See "Clearing and Settlement." Individual definitive Registered Notes will only be available in certain limited circumstances as described herein.

This Offering Circular replaces and supersedes the Offering Circular dated May 6, 2011.



**As Arranger and Dealer**

The date of this Offering Circular is April 19, 2013.

*The Issuer having made all reasonable enquiries confirms that this Offering Circular contains all information with respect to the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole (the “Group”), Brazil and its economy and the banking and financial services industry in Brazil, the Programme and Notes to be issued under the Programme which are material in the context of the issue and offering of Notes, there are no untrue statements of material fact contained in it in relation to the Issuer, the Group, Brazil and its economy and the banking and financial industry in Brazil, the Programme and the Notes, there is no omission to state a material fact which is necessary in order to make the statements made in it in relation to the Issuer, the Group, Brazil and its economy and the banking and financial industry in Brazil or the Programme or the Notes in the light of the circumstances under which they were made not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Group, Brazil and its economy and the banking and financial industry in Brazil are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, and all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer is the sole responsible for the information contained in this Offering Circular and accepts responsibility accordingly.*

*This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe or purchase, any of the Notes. The distribution of this Offering Circular and the offering of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. The Issuer and the Dealers are relying on exemptions from registration under the Securities Act for offers and sales of securities that do not involve a public offering in the United States. The Notes offered through this Offering Circular are subject to restrictions on transferability and resale, and may not be transferred or resold in the United States, except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration or exemption from them. By purchasing the notes, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading “Transfer Restrictions” in this Offering Circular. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. In making investment decisions, you must rely on your own examination of our business and the terms of the offering, including the merits and risks involved. None of the Dealers is providing any tax, business, legal, financial or accounting advice. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular see “Subscription and Sale.”*

*No representation or warranty, express or implied, is made by the Dealers as to the accuracy or completeness of any of the information set out in this Offering Circular, and nothing contained herein is or shall be relied upon as a promise or representation by the Dealers, whether as to the past or to the future. No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Dealers. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.*

**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 THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S). THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES TO “QUALIFIED INSTITUTIONAL BUYERS” IN RELIANCE ON RULE 144A. 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. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF NOTES AND DISTRIBUTION OF THIS OFFERING CIRCULAR SEE “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS.” THIS OFFERING CIRCULAR HAS BEEN PREPARED BY THE ISSUER FOR USE IN CONNECTION WITH THE OFFER AND SALE OF THE NOTES AND FOR THE LISTING OF**

**NOTES ON THE LUXEMBOURG STOCK EXCHANGE AND MAY ONLY BE USED FOR THE PURPOSE FOR WHICH IT HAS BEEN PUBLISHED.**

**THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

**TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR 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 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 PERSONS, 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.**

*References in this Offering Circular to “we,” “our,” “us,” “our bank,” “Banco Fibra” or the “Bank” refer to the Issuer (except when the context clearly indicates otherwise) and references to “you” and “yours” are to the prospective investor in the Notes.*

**TO ENSURE COMPLIANCE WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE PURCHASERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM THEIR OWN TAX ADVISORS.**

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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 Pricing Supplement 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 relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

## Forward-Looking Statements

This Offering Circular includes estimates and forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), in particular under the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Brazilian Banking System and Industry Regulation” and “Business.” These estimates and forward-looking statements are based principally on our current expectations and projections about future events and financial trends that affect or may affect our business and results of operations.

Estimates and forward-looking statements involve risks, uncertainties and assumptions, and therefore are not a guarantee of future results. Our financial condition and results of operations, as well as our market share and competitive position, may differ substantially from those anticipated in our forward-looking statements due to numerous factors.

Among the factors that may influence our estimates and forward-looking statements are:

- variations in loan default rates by our clients, as well as in our recording of provisions for doubtful loans;
- credit risk, market risk and any other risks related to financing activities;
- our level of capitalisation;
- our ability to implement our business strategies successfully;
- availability and cost of funding;
- the market value of public securities;
- developments in laws, regulations, taxation and governmental policies that relate to our activities;
- administrative and legal proceedings involving us;
- competition in the Brazilian banking market;
- general economic, political and business conditions in Brazil;
- inflation, appreciation or depreciation of the *real* and fluctuations in interest rates;
- risks relating to the current market environment; and
- the other risk factors discussed under the section “Risk Factors.”

Statements that depend on or are related to events or future or uncertain conditions or that include the words “believe,” “will,” “could,” “should,” “plan,” “anticipate,” “continue,” “expect,” “estimate,” “intend,” “may,” “assume” and other variations, as well as similar words, are intended to identify forward-looking statements. Forward-looking statements include information concerning our potential or assumed future results of operations, business strategies, funding plans, competitive position, industry environment, potential growth opportunities and the effects of future regulation and of competition. Forward-looking statements and estimates speak only as of the date they are made, and we do not undertake the obligation to update or revise any forward-looking statements after we distribute this Offering Circular to reflect new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this Offering Circular may not occur or be accurate, and our future results of operations and performance may differ materially from those set forth herein for a number of reasons. Any such forward-looking statements and estimates are not guarantees of future performance and involve risks and uncertainties. Given such limitations, you should not rely on these forward-looking statements in making a decision whether to invest in an issue of Notes.

### **Documents Incorporated by Reference**

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (1) the audited consolidated financial statements of the Issuer as of and for the years ended December 31, 2012 and 2011, prepared in accordance with the accounting practices adopted in Brazil (“Brazilian GAAP”) and in the English language;
- (2) all amendments and supplements to this Offering Circular prepared from time to time in accordance with the undertaking by the Issuer in the Dealer Agreement described below; and
- (3) the applicable Pricing Supplement prepared in respect of any Tranche of Notes,

save that any statement contained herein or in a document all or a relevant portion of which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any subsequent such document modifies or supersedes such earlier statement.

The Issuer will, at the specified offices of the Paying Agents, provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the written or oral request of any such person, a copy of any or all of the documents incorporated herein by reference. Written or oral requests for such documents should be directed to the specified office of any Paying Agent or the specified office of the listing agent in Luxembourg.

The Issuer has agreed to comply with any undertakings given by it from time to time to the Luxembourg Stock Exchange in connection with the Notes and, without prejudice to the generality of the foregoing, shall furnish to the Luxembourg Stock Exchange all such information as the Luxembourg Stock Exchange may require in connection with the listing of the Notes on the Luxembourg Stock Exchange. The Issuer shall, during the continuance of the Programme, prepare a supplement to this Offering Circular whenever required by the Luxembourg Stock Exchange and in any event if there is a significant change affecting any matter contained in this Offering Circular or a significant new matter arises the inclusion of information in respect of which would have been so required if it had arisen when the Offering Circular was prepared.

## Presentation of Financial and Other Information

### Financial Information

All references in this Offering Circular to the “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil. All references to “U.S. dollars,” “dollars” or “U.S.\$” are to U.S. dollars.

Unless otherwise indicated, references to “credit portfolio,” “total credit portfolio,” “total value of our credit portfolio” and similar terms include loans and guarantees and sureties provided by us. As of December 31, 2012, the total value of our credit portfolio was R\$8,268,603 thousand, of which R\$7,824,400 thousand consisted of loans granted by us and R\$444,203 thousand consisted of sureties and guarantees provided by us. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Off-Balance Sheet Transactions” and “Business—Analysis of our Loan Portfolio”.

On March 28, 2013, the exchange rate of *reais* into U.S. dollars was R\$2.02 to U.S.\$1.00, based on the commercial selling rate as reported by the Central Bank of Brazil (the “Central Bank”).

The commercial selling rate as reported by the Central Bank was R\$2.04 to U.S.\$1.00 as of December 31, 2012, R\$1.87 to U.S.\$1.00 as of December 31, 2011 and R\$1.67 to U.S.\$1.00 as of December 31, 2010. See “Foreign Exchange Rates and Exchange Rate Controls” for additional information regarding exchange rates for the Brazilian currency.

Solely for the convenience of the reader, we have translated some amounts included in “Summary of Financial and Other Information,” “Capitalisation,” “Selected Financial Information,” “Selected Statistical Information,” “Business” and elsewhere in this Offering Circular from *reais* into U.S. dollars using the commercial selling rate as reported by the Central Bank as of December 31, 2012 of R\$2.04 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate or as of that or any other date.

### Financial Statements

We maintain our books and records in *reais*.

We prepare our consolidated financial statements in accordance with Brazilian GAAP, which comprises accounting principles prescribed by Brazilian Law No. 6,404 of December 15, 1976, as amended, which we refer to as Brazilian corporate law, and in our industry, the regulations of the Central Bank, in each case as in effect from time to time. Brazilian GAAP varies in significant respects from accounting principles generally accepted in the United States (“U.S. GAAP”) and from International Financial Reporting Standards, as adopted by the International Accounting Standards Boards (“IFRS”).

On December 28, 2007, the Brazilian government enacted Law No. 11,638, which, together with Law No. 11,941 of May 27, 2009 (“Law No. 11,941”) amended the Brazilian corporate law, and introduced the process of conversion of financial statements into IFRS. In accordance with Central Bank Communication No. 14,259, certain financial institutions are required to apply IFRS accounting standards starting with their accounting and financial statements for the year ending December 31, 2010. We have published our financial statements for the years ended December 31, 2011 and 2012 prepared in accordance with IFRS accounting standards as issued by the International Accounting Standards Board, or IASB. Such financial statements have been made available on our website in Portuguese only ([www.bancofibra.com.br](http://www.bancofibra.com.br)). However, such financial statements are not incorporated by reference into this Offering Circular and should not be used as the basis for an investment decision in the Notes.

Our consolidated financial statements contained in this Offering Circular differ from those that would be prepared based upon U.S. GAAP or IFRS.

The consolidated financial information relating to our balance sheets and statements of income contained in this Offering Circular as of and for the years ended December 31, 2012 and 2011 have been derived from our audited

consolidated financial statements prepared in accordance with Brazilian GAAP. The financial data selected and presented below are not necessarily indicative of income from future transactions and must be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited financial statements and their respective explanatory notes.

### **Market Information**

*The information contained in this Offering Circular relating to Brazil and the Brazilian economy are based on data published by the Central Bank, by public agencies and other independent sources, such as the Brazilian Association of Entities of the Financial and Capital Markets (Associação Brasileira das Entidades dos Mercados Financeiros e de Capitais or “ANBIMA”), the Getúlio Vargas Foundation (Fundação Getúlio Vargas, or “FGV”), and the Brazilian Federation of Banks (Federação Brasileira dos Bancos, or “FEBRABAN”). Although neither we nor any Dealer has any reason to believe any of this information is inaccurate in any material respect, this information has not been independently verified by us or any Dealer and none of us accept any liability for its accuracy or sufficiency.*

### **Rounding**

We have made rounding adjustments to reach some of the figures included in this Offering Circular. Accordingly, figures shown for the same category presented in different tables may vary slightly numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.



## Summary

*This summary highlights information contained elsewhere in this Offering Circular. This summary does not contain all of the information you should consider before investing in the Notes. You should read this entire Offering Circular carefully, especially the risks of investing in the Notes discussed under sections “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes beginning on page F-1 before investing in the Notes.*

### Overview

We are a privately held Brazilian bank founded in 1987 that provides a wide range of financial services. Our business is focused on corporate lending, primarily providing financing to companies in the middle market and agribusiness market, as well as retail lending, providing financing to individuals, especially consumer finance and credit cards. We believe we are among the leading mid-sized Brazilian banks in the segments in which we operate. We are controlled by the Vicunha group (the “Vicunha Group”), a highly successful conglomerate controlled by the Steinbruch family which has been in operation for more than 40 years in Brazil. Currently, the Vicunha Group’s most important investments, in addition to its investment in the Bank, are in Companhia Siderúrgica Nacional (or “CSN”), a leading Latin American steel company and Vicunha Têxtil S.A. (“Vicunha Têxtil”), the largest textile producer in Latin America, both of which are controlled by the Vicunha Group. As of December 31, 2012, the total value of our credit portfolio was R\$8.3 billion, and we had total assets of R\$10.5 billion. On the same date, our equity was R\$1.0 billion. Primarily as a result of the restructuring of our business in 2012, we incurred a net loss of R\$138 million for 2012.

Through our diversified product portfolio, as well as our ability to structure financing transactions quickly and efficiently, we have achieved a position of prominence in the segments in which we operate, enabling us to effectively meet our clients’ financing needs. The following table summarises our business structure, including our two main business lines and finance and treasury area, as of December 31, 2012:

Corporate Credit	Retail Credit	Finance and Treasury
<ul style="list-style-type: none"> <li>▶ Primarily Middle Market and Agribusiness</li> <li>▶ Multiproduct approach</li> <li>▶ Wide and diversified range of products: working capital, trade finance, guarantees and others</li> <li>▶ Expertise and experience in structuring tailor-made deals</li> </ul>	<ul style="list-style-type: none"> <li>▶ Direct Consumer Credit (CDC)</li> <li>▶ Credit Cards</li> </ul>	Liquidity management and support services for our business areas: <ul style="list-style-type: none"> <li>▶ Treasury (liquidity and pricing)</li> <li>▶ Local funding</li> <li>▶ International funding: trade finance and capital markets</li> </ul>
<ul style="list-style-type: none"> <li>▶ 14 branches in 9 Brazilian states</li> <li>▶ 1,175 active clients</li> </ul>	<ul style="list-style-type: none"> <li>▶ 14 branches in 10 Brazilian states</li> <li>▶ 8,721 points of sale (retailers)</li> <li>▶ Approximately 1.4 million active clients</li> </ul>	<ul style="list-style-type: none"> <li>▶ Headquarters in São Paulo</li> <li>▶ Branch office in the Cayman Islands</li> </ul>
<ul style="list-style-type: none"> <li>▶ Credit portfolio totaling R\$4.6 billion</li> <li>▶ R\$403.9 million in income from financial operations in 2012</li> </ul>	<ul style="list-style-type: none"> <li>▶ Credit portfolio totaling R\$3.6 billion</li> <li>▶ R\$945.4 million in income from financial operations in 2012</li> </ul>	<ul style="list-style-type: none"> <li>▶ Funding:                             <ul style="list-style-type: none"> <li>Local: R\$6,838 million</li> <li>International: R\$1,929 million</li> <li>Total: R\$8,767 million</li> </ul> </li> </ul>

Following a major review of our strategy in 2012, we decided to discontinue our operations in vehicle finance and payroll lending. See “Strategy.”

We have a finance and treasury area that focuses principally on providing funding and liquidity by efficiently allocating resources with adequate funding costs. The finance and treasury area also provides products to our commercial clients, such as derivatives and foreign currency exchange. This area manages our own portfolios. See “Business—Our Business Activities—Finance and Treasury” and “Business—Risk Management—Market Risk Management and Control.”

We believe that our management team stands out due to its high degree of independence, professionalism, transparency, ethics and the adoption of high corporate governance standards. These factors, among others, contributed to the International Finance Corporation's ("IFC") decision to acquire capital in us commencing in June 2007 and which, as of December 31, 2012, represented 12.5% of our share capital. The entry of IFC into our shareholder base provided us with a strategic opportunity to review and improve our policies, in particular in the areas of corporate governance and social and environmental matters. Pursuant to our agreement with IFC, IFC has the right to appoint, and currently maintains, one representative in our Board of Directors. See "Principal Shareholders—IFC."

As of the date of this Offering Circular, we are rated by independent rating agencies as follows: (a) "BB-" (counterparty credit rating) and "brA" (local level) by Standard & Poor's Rating Services ("Standard & Poor's") with negative outlook; (b) "Ba3" (bank deposits) and "A2.br" (NSR bank deposits, domestic currency) by Moody's Investors Service, Inc. ("Moody's"), with stable outlook; (c) "A-(bra)" (local level, long-term) by Fitch Ratings, Ltd. ("Fitch") with a negative outlook; and (d) "low risk (short-term)" by RISKbank.

## **Competitive Strengths**

### ***Competitive Strengths in Market Niches with High Growth Potential***

We operate in the corporate lending market, primarily in the middle market and agribusiness segments, as well as in the retail credit market, each of which we believe offers substantial opportunities for growth and high profitability. Despite the fact the Brazilian economy has grown less in the past two years, we believe that in the next years there will continue to be demand for our credit products in these niche markets.

We believe that the corporate lending market, in particular in the middle and agribusiness markets, will offer excellent opportunities for growth. Similarly, we believe that the retail segment in which we operate continues to exhibit potential for expansion in the Brazilian credit market. We currently operate in the consumer finance and credit card segments. We believe that we are well-positioned to take advantage of the growth in these segments, especially in light of the expansion of the middle class in Brazil. We believe that our competitive advantages enable us to capitalise on the growth in the market niches in which we operate, including:

- *Competitive strengths in the middle market and agribusiness segments*
  - *Our relationship model.* We have the capacity to perform in-depth analyses of each of our corporate clients and understand their business cycles in order to offer the financial products and services that are best suited to their needs at each stage of their business. As a result, we have established long-term relationships with our existing corporate clients and a strong understanding of their particular businesses, in line with our policy of credit monitoring and mitigation of default risks. We believe that this proximity to our existing clients results in a solid, secure and, above all, trusting platform for doing business.
  - *Our comprehensive line of credit products.* The range of credit products we offer enables us to meet our clients' diverse needs, generating increased cross-selling business opportunities and greater customer loyalty. Our relationship with our clients is built around a multiproduct approach based on which we take advantage of cross-selling opportunities among our product segments. Our finance and treasury area supports our credit operations and complements our lending business by providing our clients with customised financial products. Our focus is to provide credit, creating and structuring products and services tailored to the client's business. In addition, our diverse range of credit products helps reduce our exposure to market volatility and risks.
  - *High degree of technical expertise, agility and speed, without sacrificing quality, in customising structured transactions.* In addition to offering a diverse range of products, our highly trained personnel work with our clients to tailor structured transactions to their specific business cycles and risks. Our employees are also able to create and implement our structured transactions with both speed and agility.

- *Competitive strengths in the retail credit segment*

- *Offer of correlated consumer credit products.* In the retail segment we focus on consumer credit through the offer of direct consumer credit (*crédito direto ao consumidor*, or “CDC”) and credit cards, which are the most common credit products used by Brazilian individuals for their consumer finance needs. Our portfolio of consumer credit products allows us to meet the diverse credit needs of individual borrowers and positions us to take advantage of consumer credit segment.
- *Deep understanding of our distribution network.* Our working relationship with our points of sale, typically retailers, is crucial for the expansion of our distribution network and business operations. We have specialised teams dedicated to each area in which we operate (such as tourism, construction materials and auto parts), which allows us to understand the business cycles of our distributors, effectively meet their needs and develop customised processes and controls for each area of operations within the specific point of sale. The expansion of our network is accompanied by the close monitoring of defaults by segment and region, allowing us to quickly implement measures to ensure the credit quality of our portfolio. In addition, our deep understanding of our distribution network enables us to offer to regional and mid-sized retailers structured credit products which are designed to address the particular needs of partners with extensive retail operations, typically a medium or large retail chain. This business model has resulted in loyalty from our points of sale.
- *Modern and efficient technology platform.* Our technology platform enables us to evaluate the credit quality of our clients quickly and accurately. Our proprietary internet-based electronic credit application and approval system, which is currently used in all of our CDC transactions, allows us to respond quickly and efficiently to our clients and provides us and our retailer partners with significantly improved levels of accuracy and dependability.

#### ***Diversified Funding Structure***

Our sources of funding are diversified and are matched to each of our classes of assets in order to avoid funding gaps and maintain liquidity. As of December 31, 2012, 78.0% of our funding was from domestic sources, consisting primarily of deposits and investments. These deposits and investments were issued through Time Bank Deposits (*Certificado de Depósito Bancário*, or “CDB”), Interbank Certificates of Deposit (*Certificado de Depósitos Interbancários*, or “CDI”) and deposits with a special guarantee (*Depósitos a Prazo com Garantia Especial* or “DPGEs”). As of December 31, 2012, CDBs, CDIs and DPGEs represented 56.7% of our total funding. Other domestic sources of funds included loan obligations and onlending of BNDES funds (4.2%), the issuance and acceptance of reais denominated securities, mainly *Letras Financeiras*, or LFs, and *Letras de Crédito do Agronegócio*, or LCAs (15.4%). On the same date, 22.0% of our funding was from foreign sources and was composed of trade finance and other credit lines with correspondent banks (7.1%), the issuance of securities (10.8%) and the issuance of subordinated debt (3.8%). Our main source of funds for our credit operations is time deposits. We fund these operations through a broad mix of depositors (consisting of 43% institutional investors, 16% corporations, 10% private individuals and 25.1% financial institutions).

#### ***Successful and Committed Shareholders***

We are controlled by the respected Vicunha Group, a successful conglomerate which has operated for more than 40 years in Brazil. Currently, the Vicunha Group’s most important investments, in addition to its investment in the Bank, are in CSN, a leading Latin American steel company, and Vicunha Têxtil, the largest textile producers in Latin America, both of which are controlled by members of the Vicunha Group. The Vicunha Group’s history and reputation for success, along with its ability to generate new business, have contributed significantly to the success and growth of our business and will, we believe, continue to do so. The Vicunha Group has demonstrated its support by injecting fresh capital in the aggregate amount of R\$400 million in 2011 and 2012. As of December 31, 2012, the companies belonging to the Vicunha Group had a total of R\$630 million on deposit with us, or 9.7% of our total deposits.

In addition, IFC has been a shareholder in the Bank since June 2007, which provided us with a strategic opportunity to review and improve our policies, in particular in the areas of corporate governance and social and environmental

matters. As of December 31, 2012, IFC held 12.5% of our share capital. See “Principal Shareholders” for a complete breakdown of all capitalisation movements that occurred in 2011 and 2012.

### ***Experienced, Agile and Professionalised Management***

Our management and business operations are run in a transparent, ethical and highly professional manner. Our by-laws permit our Board of Directors to have up to seven members. Currently our Board of Directors is comprised of seven members, three of whom were chosen by our principal shareholder, three of whom are independent and one of whom is appointed by IFC in accordance with our shareholders’ agreement. There are no family relationships among our executives on the one hand and members of our Board of Directors or the Steinbruch family on the other hand. We believe that this is one of the key differences between us and our competitors. As a result, strategic decisions made during the normal course of our business are made by highly qualified independent market professionals with extensive knowledge. Our senior executives have excellent academic credentials, broad practical experience and extensive knowledge in their respective business areas, with an average of more than 20 years of experience in financial markets. We believe that the collective experience of our management team has been a major factor in the development of our business, and in particular to the agility of our decision making and transaction execution. See “Management.”

### **Strategy**

Following upon a major review of our strategy in 2012, we determined to discontinue our operations in vehicle finance and payroll lending and grow our corporate credit operations. We are committed to our policy of focusing on selected corporate and retail credit products. Our goal is to consolidate our presence in the segments in which we operate in order to achieve higher profitability and maximise our shareholders’ returns. In order to achieve this, the key elements of our strategy are as follows:

#### ***Grow Our Corporate Credit Operations***

We intend to expand our corporate credit operations by:

- *Focusing on middle market and agribusiness.* We aim to focus our corporate credit transactions with companies in the middle market and agribusiness segments by increasing our customer base in these segments while continuing to apply our credit and collateral quality criteria.
- *Adopting a multiproduct credit approach:* We intend to attract and retain corporate clients by means of the offering of multiple credit products designed for their specific needs. These products will be offered and designed by our teams specializing in credit, structuring and sales.
- *Focusing on relationships with clients with high credit quality.* We aim to primarily focus on clients which present an actual or potential demand for multiple credit products with larger ticket sizes. This will allow us to deepen and straighten our relationship with clients, create cross-selling opportunities and generally improve the quality of our credit portfolio.
- *Further Improving our Growth Management Project,* which consists of a credit flow process initiated on July 1, 2010, that continuously improve the credit process by way of a scalable and efficient system. The first phase of the project, initiated in 2010, entailed mapping the credit flow processes, including the identification of critical points. In 2012 we implemented the Commercial Portal which permits a consolidated view of clients, products and credit risks improving the agility and flexibility of our information systems and, above all, allowing our Commercial Area to focus exclusively on its core business of developing and managing our relationship with clients. In 2013 we intend to continue to improve our Growth Management Process by, initially, integrating our credit approval process into the existing workflow and, at a later stage, including the Credit Formalization Process.

### ***Refocus and Continue to Grow our Selected Retail Credit Operations***

We discontinued our operations in payroll and vehicle finance lending in March 2012 and December 2012, respectively, because, among other factors, of their low margins and higher risks, including default risk, associated with them. We will continue to operate with selected products in the retail credit segment, with a view to achieve higher profitability. The key elements of our strategy in the retail segment are as follows:

- *Focusing on complementary consumer finance products.* We intend to continue to operate with CDCs and credit cards, which are correlated consumer finance products, in particular structured CDC products, which are tailored to meet the needs of customers with extensive retail operations, usually large retail chains.
- *Obtain synergies and economies of scale.* As a result of the major review of our strategy in 2012, Credifibra was merged into us in October 2012. In addition, we have implemented certain changes in our operations and administrative structure to benefit from existing synergies, which also allowed us to achieve significant economies of scale. We will continue to periodically review our operations and process with a view to further improve our control processes and to benefit from additional synergies and economies of scale.
- *Maintaining our policy of segmenting our sales force according to the retail store owner's line of business* to better understand and respond to the credit needs of our clients. We believe this proximity to our clients will strongly contribute to the continued growth of our client base and volume of retail credit operations;

### ***Focus on Profitability and Efficiency***

We closely monitor and control our expenses with a view to maintain a low-cost operating structure which is well-suited to our activities. Our growth strategy is designed to continuously improve our operational processes so that we can grow as efficiently as possible. We intend to improve the quality of our asset portfolio through conservative credit and management policies. We believe that these policies are essential for us to achieve sustained growth with adequate levels of risk and return on investment for our business and our shareholders.

### ***Ongoing Investment in our Professionals and Employees***

The quality of our professionals and employees is vital to our growth plans and the success of our strategy. Our human resources policies are designed to keep and attract highly qualified and experienced senior executives and professionals, and we plan to maintain these policies in the future. To that end, we will maintain our current compensation and benefits policy, which is focused on motivating our professionals and maximising our results by aligning each professional's individual objectives with those of the Bank. In addition, we will continue to invest in training and professional qualification programs for our executives and professionals, through a number of courses, including MBAs, graduate school and e-learning courses. The head of our human resources department reports directly to our CEO, which highlights the strategic importance that we attribute to this department.

\* \* \*

We are a bank with limited liability organised as a *sociedade por ações* under the laws of the Federative Republic of Brazil, incorporated on January 15, 1988 and with registration number CNPJ 58.616.418/0001-08. Our headquarters are located in São Paulo, Brazil at Avenida Presidente Juscelino Kubitschek, 360, 4th to 9th Floors, 04543-000 São Paulo, SP, Brazil. Our Grand Cayman branch is a bank with limited liability organised under the laws of the Cayman Islands, with licence number 100095 and registered office at CIBC Financial Centre, 11 Dr. Roy's Drive, P.O. Box 694GT George Town, Grand Cayman, Cayman Islands, British West Indies. Our investor relations telephone number is (55 11) 3847 6640 and our general facsimile number is (55 11) 3811 4788.

### Summary of Financial and Other Information

*The following is a summary of our consolidated financial and operating information for each of the years indicated. You should read and analyse the information below in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Offering Circular, and the sections entitled “Presentation of Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” The following tables also present certain financial and operating data not included in our consolidated and nonconsolidated financial statements.*

The summary financial information relating to our consolidated balance sheets and consolidated statements of income as of and for the years ended December 31, 2012 and 2011 has been derived from our audited consolidated financial statements prepared in accordance with Brazilian GAAP, included elsewhere in this Offering Circular. Brazilian GAAP varies in significant respects to U.S. GAAP and IFRS.

#### Consolidated Balance Sheet

	As of December 31,	
	2012	2011
	(In thousands of R\$)	
<b>Total Assets</b> .....	<b>10,449,475</b>	<b>11,016,310</b>
<b>Current Assets</b> .....	<b>7,274,253</b>	<b>7,873,137</b>
Cash and cash equivalents .....	52,339	85,353
Short-term interbank investments .....	848,936	328,922
Marketable securities and derivative financial instruments .....	585,926	1,046,189
Interbank accounts .....	57,970	80,898
Credit operations .....	5,034,243	5,213,732
Other receivables .....	529,197	1,004,731
Other assets .....	165,642	113,312
<b>Long Term Receivables</b> .....	<b>3,050,662</b>	<b>2,867,479</b>
Marketable securities and derivative financial instruments .....	114,576	183,714
Credit operations .....	1,872,090	1,903,848
Other receivables .....	952,892	693,153
Other assets .....	111,104	86,764
<b>Permanent Assets</b> .....	<b>124,560</b>	<b>275,694</b>
Investments .....	1,590	1,598
Property and equipment in use .....	16,319	18,892
Deferred charges .....	1,953	4,054
Intangibles assets .....	104,698	251,150
<b>Total Assets</b> .....	<b>10,449,475</b>	<b>11,016,310</b>

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(In thousands of R\$)</b>	
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b> .....	<b>4,498,274</b>	<b>5,862,453</b>
Deposits.....	2,610,189	3,189,576
Funds obtained in the open market.....	21,779	23,837
Funds from acceptance and issuances of securities.....	692,798	459,004
Interbranch accounts.....	31,865	79,349
Borrowings.....	545,801	930,131
Local onlendings – official institutions.....	257,060	228,211
Derivative financial instruments.....	16,074	4,276
Other liabilities.....	322,708	948,069
<b>Long Term Liabilities</b> .....	<b>4,909,565</b>	<b>4,155,771</b>
Deposits.....	2,477,099	2,563,654
Funds from acceptance and issuances of securities.....	1,602,057	858,821
Borrowings.....	74,217	28,137
Local onlendings – official institutions.....	113,628	351,453
Derivative financial instruments.....	31,555	23,927
Other liabilities.....	611,009	329,779
<b>Deferred Income</b> .....	<b>4,239</b>	<b>4,127</b>
<b>Non-controlling Interest In Subsidiaries</b> .....	<b>6</b>	<b>15</b>
<b>Equity</b> .....	<b>1,037,391</b>	<b>993,944</b>
<b>Total Liabilities and Equity</b> .....	<b>10,449,475</b>	<b>11,016,310</b>

## Consolidated Statement of Income

	<u>2012</u>	<u>2011</u>
<b>Income From Financial Intermediation</b> .....	<b>1,673,835</b>	<b>1,751,688</b>
Credit operations .....	1,349,276	1,358,930
Marketable securities transactions.....	192,925	218,322
Derivative financial instruments.....	45,355	40,326
Foreign exchange transactions .....	86,279	134,110
<b>Expenses on Financial Intermediation</b> .....	<b>(1,341,176)</b>	<b>(1,512,496)</b>
Funds obtained in the market .....	(872,441)	(946,112)
Borrowings, assignments and onlending transactions .....	(99,849)	(227,060)
Leasing operations.....	(109)	(125)
Allowance for loan losses.....	(368,777)	(339,199)
<b>Gross Profit From Financial Intermediation</b> .....	<b>332,659</b>	<b>239,192</b>
<b>Other Operating Income (Expenses)</b> .....	<b>(568,928)</b>	<b>(393,507)</b>
Income from services rendered .....	108,456	121,537
Personnel expenses.....	(269,871)	(268,818)
Other administrative expenses.....	(215,251)	(183,722)
Tax expenses .....	(67,052)	(58,760)
Other operating income .....	85,822	84,474
Other operating expenses .....	(211,032)	(88,218)
<b>Operating Result</b> .....	<b>(236,269)</b>	<b>(154,315)</b>
<b>Non-Operating Result</b> .....	<b>(9,949)</b>	<b>(2,146)</b>
<b>Loss Before Taxation and Profit Sharing</b> .....	<b>(246,218)</b>	<b>(156,461)</b>
<b>Income Tax and Social Contribution</b> .....	<b>108,290</b>	<b>72,631</b>
Provision for income tax .....	4,201	(47,694)
Provision for social contribution .....	(3,671)	(26,680)
Deferred tax assets .....	107,760	147,005
<b>Loss For the Year</b> .....	<b>(137,928)</b>	<b>(83,830)</b>



**Consolidated Selected Ratios**

	As of and for the years ended December 31,	
	2012	2011
<b>Selected Consolidated Ratios</b> .....		
<b>Profitability and Efficiency</b> .....		
Net interest margin <sup>(1)</sup> .....	7.30%	5.96%
Return on the average balance of interest-earning assets <sup>(2)</sup> .....	(1.43)%	(0.86)%
Average return on interest-earning assets <sup>(3)</sup> .....	17.41%	18.05%
Return on average balance of equity <sup>(4)</sup> .....	(13.61)%	(9.24)%
Efficiency ratio <sup>(5)</sup> .....	59.90%	64.66%
<b>Liquidity</b>		
Credit operations and other credits (including guarantees and surety bonds) as a percentage of total funding (%).....	94.31%	94.71%
<b>Capital</b>		
Total equity as a percentage of total assets (%).....	9.93%	9.02%
<b>Asset Quality</b>		
Total overdue credit operations as a percentage of total credits (%).....	2.72%	2.90%

**Notes:—**

- (1) Gross profit from financial intermediation before deducting allowance for loan losses as a percentage of the average balance of interest earning-assets.
- (2) Loss for the year as a percentage of the average balance of interest-earning assets.
- (3) Income from financial intermediation as a percentage of the average balance of interest-earning assets.
- (4) Loss for the year as a percentage of the average balance of equity (based on the average of monthly equity).
- (5) Efficiency ratio is defined as the proportion, expressed in percentage form, between (a) the sum of “personnel expenses” and “other administrative expenses” and (b) the sum of “gross profit from financial intermediation before deducting allowance for loan losses” and “income from services rendered.”

### Summary of the Programme and the Notes

*The following does not purport to be complete and is a summary of, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined or used in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meaning in this Summary:*

<b>Issuer:</b> .....	Banco Fibra S.A., acting through its principal office in Brazil or through its Cayman Islands branch, as specified in the applicable Pricing Supplement.
<b>Arranger:</b> .....	Standard Bank Plc.
<b>Dealer:</b> .....	Standard Bank Plc.
<b>Currency:</b> .....	Subject to compliance with all relevant laws, regulations and directives, any currency as may be agreed between the Issuer and the relevant Dealer(s).
<b>Amount:</b> .....	Up to U.S.\$1,000,000,000 (or its equivalent in other currencies calculated as set out herein) aggregate nominal amount of Notes. Under the Dealer Agreement, the nominal amount of Notes which may be issued under the Programme may be increased, subject to the satisfaction of certain conditions set out therein. For the purpose of calculating the aggregate nominal amount of Notes outstanding, Notes issued at a discount shall be treated as having been issued at their nominal amount calculated by reference to the amortisation yield formula as specified in the applicable Pricing Supplement or, if none is specified in the applicable Pricing Supplement, their face amount and Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
<b>Maturities:</b> .....	Subject to compliance with all relevant laws, regulations and directives, any maturity between 30 days or more from the date of issue or in each case such other minimum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body (however called)) or any laws or regulations applicable to the relevant currency or currencies; provided that, in the case of the Subordinated Notes, interest and principal payments may be deferred under the circumstances described in “—Deferral of Interest and Payment” below.
<b>Issue Price:</b> .....	Notes may be issued at par or at a discount to or premium over par.
<b>Method of Issue:</b> .....	The Notes will be issued on a continuous basis, which may include syndicated placements. Further Notes may be issued as part of an existing Series.
<b>Rate of Interest:</b> .....	The Notes may be issued on a fixed rate, floating rate, zero coupon basis or such other basis as specified in the applicable Pricing Supplement.

<b>Fixed Rate Notes:</b> .....	<p>Fixed rate interest will be payable in arrear on the date or dates as agreed between the Issuer and the relevant Dealer(s) in each year (as specified in the applicable Pricing Supplement).</p> <p>Interest will be calculated on the basis specified in the applicable Pricing Supplement.</p>
<b>Floating Rate Notes:</b> .....	<p>Floating Rate Notes will bear interest determined separately for each Series either:</p> <p>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or</p> <p>(ii) by reference to LIBOR, LIBID, LIMEAN, EURIBOR or such other benchmark as may be specified in the applicable Pricing Supplement, as adjusted for any applicable margin.</p> <p>Floating Rate Notes may have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes will be payable on the last day of each Interest Period and will be calculated on the basis specified in the applicable Pricing Supplement.</p>
<b>Interest Periods for Floating Rate Notes:</b> .....	<p>Such period(s) as the Issuer and the relevant Dealer(s) may agree, as indicated in the applicable Pricing Supplement.</p>
<b>Zero Coupon Notes:</b> .....	<p>Zero Coupon Notes do not bear interest but will ordinarily be issued at a discount to their nominal amount. The amount payable on early redemption of a Zero Coupon Note will be specified in the applicable Pricing Supplement.</p>
<b>Dual Currency Notes:</b> .....	<p>Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the applicable Pricing Supplement.</p>
<b>Index Linked Notes:</b> .....	<p>Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the applicable Pricing Supplement.</p>
<b>Deferral of Interest and Principal:</b> .....	<p>In the case of the Subordinated Notes only, (A) if we are not in compliance with the operational limits required by current or future regulations generally applicable to Brazilian banks, or the risk-based capital requirements, or (B) if the payment of interest on any interest payment date or any redemption date or the payment of principal on the maturity date or any redemption date would cause us to fail to satisfy the risk-based capital requirements, we shall defer that payment of interest or principal or any other amount payable in respect of the notes until the date no later than the number of days specified on such Subordinated Notes after the date on which we are no longer in violation of the</p>

risk-based capital requirements and the payment of that interest or principal amount, or any portion thereof, would no longer cause us to violate the risk-based capital requirements. The deferral of any payment will not be an event of default under the Notes. Each amount in arrears will bear interest at the interest rate applicable to such Series of Notes plus the default rate as specified on such Subordinated Notes (if it is an interest amount, as if it constituted the principal of the notes). See Conditions 5(V) and 6(h). See “Risk Factors—Risks relating to the Subordinated Notes—Payments to be made by us under the Subordinated Notes may be deferred if we are not in compliance with operational limits required by regulations applicable to Brazilian banks.”

**Withholding Tax:**.....

All payments of principal and interest will be made free and clear of withholding for or on account of any taxes imposed by or within Brazil, the Cayman Islands or any political subdivision or taxing authority thereof or therein, subject to certain exceptions (including the IPMA Standard EU Exception).

**Denominations:** .....

Bearer Notes and Registered Notes will be in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and specified in the applicable Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies). Registered Notes resold pursuant to Rule 144A shall be in denominations of U.S.\$100,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)) or higher integral multiples of U.S.\$1,000.

**Redemption:** .....

The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

**Optional Redemption:** .....

In the case of Senior Notes, the Pricing Supplement issued in respect of each issue of Senior Notes will state whether such Senior Notes may be redeemed prior to their stated maturity at the option of the Issuer and/or the holders, and if so the terms applicable to such redemption including whether partial redemption is permissible.

In the case of Subordinated Notes, the Issuer may, subject to the approval of the Central Bank or any other applicable Brazilian

	<p>governmental authority for such redemption (if such approval is then required), redeem each issue of Subordinated Notes for certain tax reasons or upon the occurrence of certain regulatory events as more fully set out in Condition 6(g). The Subordinated Notes will not be redeemable at the option of the holders.</p>
<b>Rating:</b> .....	<p>The Programme has received a credit rating of (P)Ba2 by Moody's. The rating does not constitute a recommendation to buy, sell or hold any Notes and may be subject to revision or withdrawal at any time by Moody's.</p>
<b>Listing:</b> .....	<p>The Euro MTF Market of the Luxembourg Stock Exchange or as otherwise specified in the applicable Pricing Supplement. As specified in the applicable Pricing Supplement, a Series of Notes may be listed or unlisted. In respect of Notes of any Series initially listed on the Luxembourg Stock Exchange or any other stock exchange, the Issuer may seek to terminate such listing and list such Notes on an alternative stock exchange in the event that the maintenance of such listing becomes unduly onerous.</p>
<b>Status of Notes:</b> .....	<p>The Senior Notes will be direct, unconditional, unsecured and unsubordinated obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves.</p> <p>The Subordinated Notes will be unsecured and subordinated obligations of the Issuer and shall be subordinated in right of payment to all existing and future senior liabilities of the Issuer.</p>
<b>Negative Pledge:</b> .....	<p>Applicable to Senior Notes only, as set out in Condition 4.</p>
<b>Events of Default:</b> .....	<p>In the case of the Senior Notes, the events of default are set out in Condition 9(ii) and include, among other events, (i) an event of default on the Issuer ceasing to be directly or indirectly owned and controlled by the persons more fully set out in Condition 9(h) and (ii) a cross default as set out in Condition 9(c).</p> <p>In the case of the Subordinated Notes, the events of default are set out in Condition 9(i) and include, among other events, an event of default due to (i) the Issuer's failure to pay principal on the due date thereof, unless the principal payment is deferred as described above in "—Deferral of Interest and Principal," and (ii) certain events involving bankruptcy, liquidation, reorganisation or insolvency proceedings, whether voluntary or involuntary.</p>
<b>Amendments to the Terms and Conditions of the Notes; Modification by the Issuer:</b> .....	<p>We expect to qualify each Series of Subordinated Notes as Tier 2 Capital subject to Central Bank's approval. The Central Bank may require us to amend certain terms and conditions of such Subordinated Notes as a condition to granting such approval. In relation to any Series of Subordinated Notes, the Issuer and the Trustee may (once per Series), without the consent of the holders, modify the terms and conditions of such Subordinated Notes solely to comply with the requirements of the Central Bank in order to qualify such Subordinated Notes as Tier 2 Capital pursuant to Resolution 3,444, as amended. The Issuer will not be permitted to make any modifications without the</p>

consent of the holders if such modification would affect in any way the interest rate of such Subordinated Notes, the cumulative nature of any interest payment due on amounts in arrears, the outstanding principal amount of such Subordinated Notes, the ranking of such Subordinated Notes or the original maturity date of such Subordinated Notes.

Other amendments to the terms and conditions of any Series of Notes (other than in respect of minor amendments required to cure inconsistencies, defects ambiguities and similar matters) are subject to the prior consent of the holders as set out in Condition 11.

**Governing Law:** .....

The Trust Deed, the Notes and related documents are governed by English law, except that the subordination provisions applicable to the Subordinated Notes, including, but not limited to, the subordination provisions set forth in Condition 17(b), will be governed by the laws of Brazil.

**Selling Restrictions:** .....

There are restrictions on the sale of Notes and the distribution of offering material in various jurisdictions. See "Subscription and Sale."

Each Series of Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) or such successor regulations intended to be issued under Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), in accordance with U.S. Internal Revenue Service Notice 2012-20 (the "D Rules") unless (i) the relevant Pricing Supplement states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) or any applicable successor regulations under Section 4701 of the Code (the "C Rules"), (ii) the Notes are treated as issued in registered form for U.S. federal income tax purposes or (iii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") or under Section 4701 of the Code, which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which neither TEFRA nor Section 4701 of the Code is applicable.

**Transfer Restrictions:** .....

There are restrictions on the transfer of Registered Notes sold pursuant to Rule 144A under the Securities Act. See "Transfer Restrictions."

**Clearing Systems:** .....

Euroclear and Clearstream, Luxembourg for Bearer Notes, Euroclear, Clearstream, Luxembourg and DTC for Registered Notes.

**Pricing Supplement:** .....

The issue price, issue date, maturity date, nominal amount, interest rate (if any) applicable to any Notes and any other relevant provisions of such Notes will be agreed between the Issuer and the relevant Dealer(s) at the time of agreement to issue such Notes and will be specified in the applicable Pricing Supplement.

**Form and Denomination:** .....

Each Series of Senior Notes will be issued either in bearer form or in registered form, and each Series of Subordinated Notes will be issued in registered form only in accordance with the provisions of Condition 17. Notes comprising each such Series will be issued in each case in the nominal amount of a Specified Denomination (as defined in Condition 1(b)).

## **Risk Factors**

*As a general matter, investing in the securities of Brazilian issuers, such as we are, involves a higher degree of risk than investing in securities issued by United States companies or companies in certain other countries with highly developed capital markets. In addition, prospective purchasers of the Notes should consider carefully certain factors regarding us and the Notes. Our business, financial condition and operating income may be adversely and materially affected by the risks described below. The risks described below are those that we are currently aware of and believe could affect it significantly. Accordingly, prospective purchasers of the Notes offered hereby should consider carefully, in light of their financial circumstances and investment objectives, all of the information in this Offering Circular and, in particular, the risk factors set forth below. Additional risks that are not currently known or considered irrelevant may also have an impact on our business and on the investment in the Notes.*

### **Risks Relating to Us and the Brazilian Banking Industry**

*Interest rate changes by the Central Bank could adversely affect us.*

The Central Bank's Committee for Monetary Policy (*Comitê de Política Monetária*) (the "COPOM") periodically establishes the special overnight clearance and custodial rate (*Sistema Especial de Liquidação e Custódia*) (the "SELIC rate"), which is the base interest rate for the Brazilian Financial System (*Sistema Financeiro Nacional*) and an important policy instrument for the achievement of inflation targets. The COPOM has frequently adjusted the SELIC rate in response to economic uncertainties and to achieve the goals of the Brazilian Government's economic policies. The SELIC rate has fluctuated historically, reaching approximately 45% per annum in March 1999 and falling to 15.25% per annum in January 2001. As of December 31, 2006, 2007, and 2008, the effective SELIC rate was 13.19%, 11.18%, and 13.66%, respectively.

During 2009, the COPOM significantly reduced the SELIC rate, which ended the year at 8.675%. Between April and July 2010, the COPOM increased the SELIC in response to increased inflation, from 8.75% in April to 10.75% in July. In the first half of 2011, the Central Bank maintained its tightening monetary policy, further increasing the target SELIC rate to 12.25% and 12.50% in June and July, respectively. However, evaluating other factors, particularly volatility in foreign economies, which could have had a deflationary pressure on Brazil's economy, as well as in order to reinforce Brazil's domestic fiscal policy to fight inflation, the COPOM countered market expectations and reduced the target rate to 12.00% at a meeting held on August 31, 2011. The COPOM decreased the target SELIC rate several times during the last quarter of 2011 and first half of 2012. On October 10, 2012, it was set at 7.25%, where it remains as of the date of this Offering Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Principal Factors Affecting Our Financial Condition and Results of Operations—Interest Rates."

Increases in the SELIC rate could adversely affect us by reducing demand for credit, increasing our cost of funding and increasing the risk of default by our clients. Decreases in the SELIC rate could also adversely affect us by decreasing the interest income we earn on our interest-earning assets and lowering our margins. We enter into derivatives transactions to manage our exposure to interest rate risk, however, such derivatives transactions are designed to protect us against increases in interest rates or against decreases in such rates, but not both. For example, if we have entered into derivatives transactions to protect against decreases in interest rates and interest rates increase, we may incur financial losses. Such losses could adversely affect our future net income.

*The Brazilian Government regulates the operations of Brazilian banks, and changes in existing laws and regulations or the imposition of new laws and regulations may adversely affect us.*

Brazilian banks, including us, are subject to extensive and continuous regulatory review by the Central Bank. We cannot predict when the Brazilian Government, through the CMN or the Central Bank, will modify or create new regulations applicable to all or part of our operations, including regulations that impose:

- minimum capital requirements;
- compulsory deposit requirements;



- lending limits and other credit restrictions;
- foreign currency risk limits; and
- accounting and statistical requirements.

The regulatory structure governing Brazilian financial institutions is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change, and new laws or regulations could be adopted. Any of these changes could adversely affect us.

In particular, the Brazilian Government has historically enacted regulations affecting banks in an effort to implement economic policies. These regulations are intended to control the availability of credit and reduce or increase consumption in Brazil (including by increasing compulsory deposit requirements and reducing the amount of resources available for financings and investments). There can be no assurance that the Central Bank will not increase or impose new reserve or compulsory deposit requirements. These changes may adversely affect us because our returns on compulsory deposits are lower than those we obtain on our other investments. In addition, the Central Bank may decide to implement certain guidelines set forth in the Basel II Accord, which may result in a more strict risk management and may restrict the use of our resources in accordance with our strategies.

*Minimum capital requirements imposed on the banking system may negatively affect our results of operations and financial condition.*

Under CMN Resolution No. 2,099, capital requirements for Brazilian banks are based on risk assessment methods set forth in the Basel Accord, as implemented and amended by the Central Bank. The Basel Accord determines capital adequacy requirements for banks based on net equity, with adjustments for risk-weighted assets. The minimum capital adequacy ratio required by the Central Bank for Brazilian banks is currently 11% of risk-weighted assets. As of December 31, 2012, our Basel Index rate was 13.2%.

Communication No. 12,746, Communication No. 16,137 and Communication No. 19,028 of the Central Bank establish guidelines for the implementation of the Basel II Accord (“Basel II”). Based on these Communications, the Basel II requirements are required to be implemented by the first semester of 2013, in particular changes in capital allocation for credit risk (Pillar I). Furthermore, pursuant to CMN Resolution No. 3,490 of August 29, 2007, as amended, and Central Bank Circular No. 3,383 of April 30, 2008, as amended, the Central Bank requires banks to set aside a portion of their equity to cover operational risks (*i.e.*, losses arising from failures, deficiency or inadequacy of internal proceedings, personnel or systems, including due to external events). Such requirement entered into effect on July 1, 2008. The implementation of the Basel II requirements may adversely affect our capital allocation to cover our operational and credit risks.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced changes to the existing capital requirements and endorsed previous agreements on the design of the capital and liquidity reform package, the Basel III Accord (“Basel III”), which was presented at the Seoul G20 Leaders summit in November 2010. The Committee’s reforms include the increase of the minimum common equity requirement from 2.0% to 4.5%. In addition, banks would be required to hold a capital conservation buffer of 2.5% to protect against difficult periods, bringing the total common equity requirements to 7.0%. The new rules are expected to be implemented gradually by the central banks of various countries between 2013 and 2019.

On March 1, 2013, the CMN enacted, through resolutions No. 4,192 (“CMN Resolution No. 4,192”), 4,193 (“CMN Resolution No. 4,192”), 4,194 (“CMN Resolution No. 4,192”) and 4,195 (“CMN Resolution 4,195”) the new rules changing the definition of reference equity of Brazilian financial institutions (*patrimônio de referência*, or “PR”), which is currently set forth in CMN Resolution No. 3,444, of February 28, 2007 (“CMN Resolution No. 3,444”). Among other topics, the Central Bank initially intends to consider, in the composition of the PR of financial institutions, their controlled entities similar to financial institutions (*e.g.*, credit card administrators) and investment funds from which financial institutions take substantial risks and benefits. CMN Resolutions No. 4,192 and No. 4,194 will become effective on October 1, 2013 and CMN Resolution No. 4,195 will become effective on July 1, 2013. See “The Brazilian Financial System—Capital Accuracy Guidance.” Due to changes in the capital

adequacy regulations or to changes in the performance of the Brazilian economy as a whole, we may be unable to meet the minimum capital adequacy requirements required by the Central Bank. We may also be compelled to limit our credit operations, dispose of assets and/or take other measures that may adversely affect our results of operations and financial condition.

*Changes in regulations regarding compulsory deposits may adversely affect us.*

The Central Bank has periodically changed the level of compulsory deposits that financial institutions in Brazil are required to maintain with the Central Bank. The Central Bank may increase its compulsory deposit requirements in the future or impose new compulsory deposit requirements.

Compulsory deposits generally yield lower returns than our other investments and deposits because:

- a portion of our compulsory deposits do not bear interest;
- a portion of our compulsory deposits must be held in Brazilian Government securities; and
- a portion of our compulsory deposits must finance the Brazilian rural sector and, for certain banks, the Brazilian housing sector.

Our compulsory deposits in connection with demand deposits were R\$29.8 million as of December 31, 2012, a significant reduction from prior years. This lower level of compulsory deposits reflected a change in Central Bank regulations made on December 19, 2008 intended to improve liquidity in the Brazilian financial system (as a response to the global economic crisis).

Any increase in the compulsory deposit requirements may reduce our ability to lend funds and to make other investments and, as a result, may adversely affect us.

*The increasingly competitive environment in the Brazilian banking industry may adversely affect us.*

The markets for financial and banking services in Brazil are highly competitive. We face significant competition from other large Brazilian and international banks. The Brazilian banking industry underwent a period of consolidation in the 1990s, when a number of Brazilian banks were liquidated and other state-owned and private banks were sold. Competition increased during this period as foreign banks entered the Brazilian market through the acquisition of Brazilian financial institutions. The privatisation of state-owned banks has also made the Brazilian markets for banking and other financial services more competitive.

Traditionally, our competitors in the middle market and the individual lending segments have been specialised medium-sized banks. However, in recent years large domestic and foreign banks and financial institutions have started to operate in these segments. This has occurred simultaneously with a further period of consolidation in the Brazilian banking sector. Of particular significance in the past few years, Banco do Brasil acquired Banco Nossa Caixa S.A. and a 50% interest in Banco Votorantim S.A., Caixa Econômica Federal S.A. acquired 35% of Banco Panamericano S.A., the Itaú group merged with the Unibanco group and Banco Santander (Brasil) S.A. acquired Banco ABN AMRO Real S.A. These acquisitions may be followed by other domestic or international acquisitions and result in additional consolidation in the middle market and the individual lending segments, which could significantly change the competitive landscape in which we operate. We cannot guarantee that we will compete successfully with these banks, primarily because they have more resources than we do and have an extensive network of branch offices and distribution channels.

Moreover, certain of our competitors currently are, or intend to become, publicly-held companies, which will considerably increase their equity and, as a result, increase the level of competition. Increased competition may reduce the spreads we earn and result in the loss of our key managers, who may be hired by our competitors and decrease our marketing power.

Increased competition adversely affects us by, among other things, limiting our ability to increase our client base and expand our operations, reducing our profit margins on the banking and other services and products we offer, and increasing competition for investment opportunities. See “Business—Competition.”

*An increase in our loan portfolio, particularly in the middle market segment, may adversely affect us.*

An increase in our loan portfolio may increase the level of our loans in default and provision for loan losses if this increase is caused by a less conservative management of our operations. In addition, a close relationship with corporate clients is essential to a successful performance in the middle market segment. The increase in the volume of our loan operations and in the number of our clients may harm our relationships with corporate clients since we may lose new business opportunities and distance ourselves from our existing clients.

The middle market segment consists of small- and medium-sized companies, which typically have lower levels of corporate governance and may provide us with incorrect information when we assess their risk. As a result, we may inadvertently grant loans to companies that do not meet our standard loan criteria, which may adversely affect us.

*Any restrictions on bank loan interest rates may adversely affect us by decreasing our revenues and limiting our ability to make loans.*

Decree No. 22,626, dated April 7, 1933, also known as the Usury Law (*Lei de Usura*), prevents any person or entity from charging interest rates higher than 12.0% per annum. However, the Banking Restructuring Law (*Lei da Reforma Bancária*), together with recent court decisions, have exempted banks from this prohibition. Any changes to the courts’ views about this exemption or an amendment in the applicable laws and regulations limiting the interest rates that we can charge on our loans may adversely affect us.

*The loss of relationships with or the insolvency of our service or support providers that support our CDC operations could negatively affect our financial condition and results of operations.*

In respect of our CDC operations, our relationships with points of sale, which arise out of our various operating agreements, may or may not be exclusive, and the majority of our points of sale may generate business to other banks. The loss of relationships with these points of sale or the insolvency of the same, as well as any inability to replace them, could adversely affect our ability to distribute our CDC products, which would have an adverse effect on our financial condition and results of operations.

*Changes in tax and social security regulations may adversely affect us.*

To support its fiscal policies, the Brazilian Government regularly implements changes to tax and social security regimes that affect our clients and us. These reforms include changes in tax rates and tax assessment criteria and the enactment of temporary taxes, the proceeds of which are earmarked for specific governmental purposes. See “The Brazilian Financial System—Taxation in Brazil.” Some of these measures, such as the recently implemented increase in the amount of social contribution payable by banks and the imposition of a tax on financial transactions (*Imposto sobre Operações Financeiras*) (“IOF”) of 6% on the entry of foreign funds in relation to some specific money market investments, may result in increases in our payments of taxes and social contributions, which could adversely affect our profitability and ability to engage in certain transactions. In addition, changes in tax and social securities regulations may result in uncertainties in the Brazilian financial system, and increase our funding costs and the default rates of our borrowers, which may adversely affect us.

*The risks associated with our treasury activities and open market activities may have an adverse effect on our financial condition.*

In recent years, a portion of our gross revenues and operating profit have been derived from market operations conducted by our treasury division and involving trading in a variety of Brazilian Government securities and financial instruments. The majority of these revenues have resulted from credit operations. There are various risks to us associated with such activities, including market and counterparty risks. We have been actively seeking to expand our business into more traditional banking products in order to diversify our revenue base. However, we

intend, to continue such operations, for so long as we perceive opportunities for such operations, and consider involvement in such activities to be in our interests. Accordingly, our financial condition and our net income in future periods will continue to be exposed to the risks inherent in such activities, which may have an adverse affect on us.

*Any imbalance between our loan portfolio and our sources of funds could adversely affect our operating results and our capacity to expand our credit transactions.*

We are exposed to certain imbalances between the loans we make and our obligations to our funding providers in relation to the interest rates and maturity dates of these loans and obligations. A portion of our loan portfolio is made up of fixed interest rate credits and the yield from our credit transactions depends on our ability to balance the cost of our funding with the interest rates charged to our clients. An increase in the market interest rates in Brazil could increase our cost of funding, especially the cost of our time deposits, and may force us to reduce the spread we charge on our loans, adversely affecting us.

Any mismatch between the maturity of our loans and our sources of funds would potentially result in an imbalance in the interest rates on these loans and funding sources, which could create problems in our liquidity if we fail to continue to be able to obtain funding at favourable rates. An increase in the total cost of our sources of funds for any of these reasons could result in an increase in the interest rates on our loans, which could, as a result, affect our ability to attract new clients. Any decrease in the level of our loan portfolio may adversely affect us.

*Time deposits are an important source of funding for us.*

We rely on time deposits as our principal funding source. As of December 31, 2012, 52.4% of our funding was obtained from time deposits.

Our ability to obtain additional funding will depend on, among other factors, our performance and future market conditions. We cannot assure you that time deposits will continue to be available on favourable terms to us or at all. If we are unable to obtain sufficient new funding, we may not be able to continue growing our loan portfolio or to respond effectively to changes in business conditions and competitive pressures, which could have an adverse effect on us.

*A downgrading in our credit rating may increase our costs of funding.*

Our costs of funding are influenced by a number of factors, some of which are out of our control, such as prevailing macroeconomic conditions and the regulatory environment for Brazilian banks. Any unfavourable change in these factors may cause a negative impact in our credit rating, which could restrict our ability to obtain funding, transfer loan portfolios or issue securities on acceptable terms, increasing our cost of funding.

*Risk perception in relation to Brazilian mid-sized banks may adversely affect our liquidity and increase our costs of funding.*

Banco Cruzeiro do Sul, Banco Prosper and Banco BVA, three well-known mid-sized Brazilian banks, were recently put under liquidation or intervention by the Central Bank due to accounting and liquidity issues. The initiation of these procedures may generally affect the reputation of, and risk perception in relation to mid-sized banks, like us, which could restrict our ability to obtain funding and increase our cost of funding.

*A deterioration in the creditworthiness of the receivables our clients provide as collateral to our loans, or difficulties in repossessing and realising value from collateral with respect to defaulted loans, may adversely affect us.*

Most of the financings we grant to our clients, particularly mid-sized companies, are secured by pledges of receivables from third parties. Any reduction in the creditworthiness of these third parties may negatively affect our ability to collect receivables from our clients and therefore may adversely affect us.

In addition, some of our credit operations, such as vehicle financing, are secured by assets that are expensive to repossess and difficult and cumbersome to store and manage or in respect of which security has not been properly taken or registered. Upon default by our clients, it may be difficult for us to repossess and to realise value from collateral with respect to the underlying loans. If we experience higher rates of default on our loans that are secured with these types of assets, provisioned amounts may be inadequate and we would incur higher losses from the defaulted credit operations.

*We may not successfully implement our strategies, which may adversely affect us.*

We intend to implement several business strategies that we believe will be essential for our future growth. Among these strategies, we plan to expand our market share in the middle market segment by increasing our customer base, improving our distribution structure and offering tailor-made products to our clients. We also plan to consolidate and expand our market share in the individual lending segment by offering new credit products and by taking advantage of our current distribution network. We cannot assure you that we will successfully implement these or any other strategies, which would have an adverse effect on us.

*The loss of any of our key managers, our inability to attract and maintain additional management personnel may adversely affect us.*

Our ability to maintain our competitive position and implement our growth strategy is highly dependent on our management team. We cannot assure that we will not lose any of our current key managers or that we will be successful in attracting and maintaining qualified personnel to be part of our management team, which may adversely affect us.

*Our controlling shareholders' interests could conflict with interests of the holders of the Notes.*

We are controlled by the Vicunha group, a conglomerate controlled by the Steinbruch family. In common with all Brazilian financial institutions, we are monitored by the Central Bank to ensure we comply with regulations that prevent an abuse of such power. Specifically, Article 34 of Law No. 4,595 of December 31, 1964 prevents any Brazilian financial institution from granting loans to members of their board of directors or persons holding 10.0% or more of their share capital. However, this level of control enables the Steinbruch family, indirectly, to elect and control the decisions of our Board of Executive Officers and to determine the outcome of all of actions requiring shareholders' approval. Decisions in relation to our policy towards acquisitions, divestitures, financings or other transactions could be made by the Steinbruch family which may be contrary to the interests of holders of the Notes, and which may have a negative impact on the interests of holders of the Notes.

*There may be less publicly available corporate disclosure about us than is regularly published by or about listed companies in certain countries with highly developed capital markets.*

A principal objective of the securities laws of the United Kingdom, the United States, Brazil and other countries is to promote full and fair disclosure of all material information of companies issuing securities. As a Brazilian non-listed bank, we are subject to extensive regulation by the Central Bank, which requires us (to a greater extent than non-bank entities) to disclose information concerning our operations and financial condition. However, there may be less publicly available information about us than is regularly published by or about listed companies in certain countries with highly developed capital markets, such as the United Kingdom or the United States.

*The disruptions recently experienced in the international capital markets have led to reduced liquidity, increased credit risk premiums and a reduction of available financing. Banks, such as us, located in emerging markets may be particularly susceptible to these disruptions which could result in financial difficulty.*

The disruptions experienced in the international capital markets from mid-2008 led to reduced liquidity and increased credit risk premiums for certain market participants and which in turn gave rise to a decline in credit quality, increases in defaults and non-performing debt. The continuation of the economic crisis in Europe has caused significant volatility in the global financial markets. If market conditions and circumstances do not experience a sustained recovery or deteriorate again, this may lead to a decline in credit quality, increases in defaults

and non-performing debt, among other things, which may have an adverse effect on our business, results of operations and financial condition.

In addition, the availability of credit to entities, such as us, operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in a market) could affect the price or availability of funding for entities within any emerging market.

*Increased regulation following recent developments in global markets.*

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, Luxembourg and elsewhere have provided additional capital and funding and are implementing other measures including increased regulatory control in their respective banking sectors including by imposing enhanced capital requirements. It is uncertain how the more rigorous regulatory climate will impact financial institutions, including us. It is also uncertain whether further regulatory requirements (including capital adequacy requirements) will be introduced in such countries or elsewhere, including Brazil.

*The changes in Brazilian GAAP for conversion into IFRS may adversely impact our financial statements.*

The Bank prepares its financial statements in accordance with Brazilian GAAP, which differs in certain significant respects from IFRS. As a result, the financial information presented in this Offering Circular may differ significantly from financial statements prepared in accordance with IFRS or the accounting standards of other countries. The Bank has made no attempt to identify or quantify the impact of those differences.

The Brazilian Securities Commission (*Comissão de Valores Mobiliários* or “CVM”) and the Central Bank require that publicly-listed companies, and companies subject to Central Bank supervision, also present and disclose, once a year, consolidated financial statements prepared in accordance with IFRS, beginning with financial statements as of and for the year ending December 31, 2010, with comparative figures for 2009.

Due to the enactment of Law No. 11,638 and Law No. 11,941, the CPC has issued and will continue to issue new accounting standards to align Brazilian GAAP more closely with IFRS. Accounting standards issued by CPC and applicable to financial institutions must be approved by the Central Bank.

No reconciliation of IFRS of any of the financial statements presented in this Offering Circular has been prepared. There can be no assurance that such a reconciliation would not identify material quantitative differences between our financial statements as prepared on the basis of accounting principles determined by Brazilian GAAP and our financial statements as prepared on the basis of IFRS.

*Some of our borrowers have credit ratings of C or lower in accordance with Central Bank guidelines, which may present an elevated risk of loss.*

Some of our credit operations are to borrowers classified by Central Bank guidelines as level C at the time the loans are made. These borrowers present us with risks of loss that are higher than those for borrowers with better credit ratings. Our strategy is to comprehensively evaluate their business and credit risk, to require collateral for loans that we deem to be acceptable and not to enter into credit operations with borrowers with a level lower than C. However, we cannot guarantee that these borrowers’ credit ratings will not be reclassified to below C in the future. Therefore, our ability to properly evaluate the collateral granted to us in connection with these loans, and to timely execute on this collateral or otherwise collect amounts owed to us, is fundamental. If we do not appropriately analyse the credit of our borrowers or the collateral pledged to us, or if we are prevented from taking possession of these pledges or collecting amounts due to us in a timely manner, our business, financial condition and results of operations may be adversely affected.

*Deposits funded through certificates of deposit represent a major source of our funding. Problems with funding by way of certificates of deposit could negatively affect our financial condition and results of operations.*

We use certificates of deposit as a significant funding source, and as of December 31, 2012, CDBs, CDIs and DPGEs accounted for 56.7% of our total funding. Our ability to obtain additional funds will depend, among other factors, on our performance and on future market conditions. We cannot assure you that funding through certificates of deposit will continue to be available on favourable terms. If we cannot obtain additional funds from alternative funding sources, we would be unable to continue to maintain or expand our loan portfolio, or to respond effectively to changes in business conditions and competitive pressures, which could have an adverse effect on our business, financial condition and results of operations.

*Our securities and derivative financial instruments are subject to adverse market variations.*

As of December 31, 2012, our securities and derivative financial instruments portfolio represented R\$700.5 million, or 6.7%, of our total assets. Any realised or unrealised future gains or losses from these investments could have a significant impact on our income. These gains and losses, which we account for when we sell or market-to-market investments in financial instruments, can vary considerably from one period to another. In addition, we enter into hedge transactions to manage our exposure to interest rate and exchange rate risk, which are designed to protect us against increases in exchange rates or interest rates or against decreases in such rates, but not both. If, for example, we enter into hedge transactions to protect ourselves against decreases in the value of the *real* or in interest rates and the *real* instead increases in value or interest rates increase, we may incur financial losses. We cannot forecast the amount of gains or losses in any future period, and the variations experienced from one period to another do not necessarily provide a meaningful forward-looking point of reference. Gains or losses in our investment portfolio may create volatility in net revenue levels, and we may not earn a return on our consolidated investment portfolio or on a part of the portfolio in the future. This could adversely impact our operating income and financial condition. For more information on our securities and derivative financial instruments, see “Selected Statistical Information—Breakdown and Maturity of Securities and Derivative Financial Instruments.”

### **Risks Relating to Macroeconomic Factors in 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 economy has been marked by frequent and sometimes significant interventions by the Brazilian Government on monetary, credit, tax and other policies. The Brazilian Government’s actions to control inflation and implement other policies have in the past involved, among other measures, control over wages and prices, devaluation of the currency, controls on foreign capital and certain limits on imported merchandise and services. We cannot predict the effects of any measures or policies that the Brazilian Government might adopt in the future. We could be adversely affected by changes in public policy at the federal, state and municipal level relative to interest rates and exchange controls, as well as other factors, such as:

- banking regulations;
- variation in exchange rates;
- exchange control policies;
- inflation;
- interest rates;
- liquidity in the domestic financial and stock markets and in the credit markets;
- tax policy and regulation; and
- measures of a political, social and economic nature that occur or that might affect Brazil.

Uncertainty over whether the Brazilian government will implement changes in policy or regulations affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and in the securities issued abroad by Brazilian issuers. We cannot predict whether Brazilian governmental actions will result in adverse consequences to the Brazilian economy, our business, results of operations or financial condition or prospects, or impact our ability to satisfy payment obligations under the Notes.

Deterioration in economic and market conditions in other countries, especially emerging market countries, may adversely affect the Brazilian economy and our business.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging countries and in the United States and Europe. Although economic conditions are different in each country, investors' reactions to developments in one country may affect the capital markets in other countries.

These conditions have included the depreciation of the Mexican *peso* in December 1994, the Asian economic crisis in 1997, the Russian monetary crisis in 1998, the Argentine economic and political crisis in 2002, the crisis recently experienced in the global financial markets, which had its roots in the subprime mortgage crisis in the United States in 2008, and the European debt crisis, which affected certain countries in the European Union in 2010. Crises in other countries, especially in emerging markets, may decrease investments in securities issued by Brazilian companies, including securities issued by us. This could affect the market price of our shares and make our access to capital markets and financings on acceptable terms in the future difficult or impossible.

*Inflation, and the Brazilian Government's measures to combat inflation, may contribute to economic uncertainty in Brazil, adversely affecting us.*

In the past, Brazil has experienced high rates of inflation. Certain actions taken by the Brazilian Government to combat inflation have had negative effects on the Brazilian economy. Annual inflation rates were 8.1% in 2012, 5.0% in 2011 and 11.3% in 2010, as measured by the General Price Index - Internal Availability (*Índice Geral de Preços - Disponibilidade Interna*). The Brazilian Government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. Inflation, along with government measures to combat inflation and public speculation about possible future government measures, has had significant negative effects on the Brazilian economy, and contributed to increase economic uncertainty in Brazil and heightened volatility in the Brazilian securities market, which may have an adverse effect on us.

If Brazil experiences substantial inflation in the future, our results of operations may be adversely affected, negatively impacting our ability to comply with our obligations. Inflationary pressures could also reduce our ability to access foreign financial markets and lead to further government intervention in the economy, including the introduction of policies that adversely affect the performance of the Brazilian economy as a whole, and consequently, our own operations.

*Exchange rate instability may adversely affect us.*

As a result of several pressures, the Brazilian currency has been devalued periodically in relation to the U.S. dollar and other foreign currencies during the last four decades. Throughout this period, the Brazilian Government has implemented various economic plans and utilised 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. More recently, the effects of the floating exchange rate regime have led to significant exchange volatility in relation to the dollar and other currencies. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. The *real* depreciated against the U.S. dollar by 9.3% in 2000, 18.7% in 2001, 52.3% in 2002, 18.8% in 2004, 32.2% in 2008 and 12.6% in 2011. The *real* appreciated against the U.S. dollar by 19.4% in 2003, 15.9% in 2005, 5.9% in 2006, 17.0% in 2007, 25.6% in 2009, 4.0% in 2010 and 8.5% in 2012, and we cannot be certain whether the *real* will not fluctuate substantially against the U.S.



dollar in the future. On December 31, 2012, the exchange rate between the *real* and the U.S. dollar was R\$2.04 to U.S.\$1.00.

As of December 31, 2012, 9.3% of our total funding was denominated in or linked to the U.S. dollar. A depreciation of the *real* against the U.S. dollar would increase the amounts in *reais* that we are required to pay under our U.S. dollar obligations. In addition, this depreciation could also increase loan defaults by our clients since they would be required to pay higher amounts in *reais* to service their debt obligations with us denominated in or linked to the U.S. dollar.

We enter into derivatives transactions to manage our exposure to exchange rate risk. Such derivatives transactions are designed to protect us against increases in exchange rates or against decreases in such rates, but not both. For example, if we have entered into derivatives transactions to protect against decreases in the value of the *real* and the *real* instead increases in value, we may incur financial losses. Such losses could adversely affect our future net income.

Depreciations of the *real* relative to the U.S. dollar could create inflationary pressures in Brazil, which may negatively affect us. Also, depreciations of the *real* restrict our ability to access foreign financial markets and may cause government intervention in the market. This intervention could lead to restrictive policies. In addition, a strong appreciation of the *real* relative to the U.S. dollar could adversely affect Brazil's external payments and may hinder the increase in exports. Any of these situations could have an adverse effect on us.

*Brazil's economy remains vulnerable to external factors, which could have an adverse effect on Brazil's economic growth and on our business and results of operations.*

The globalization of the capital markets has increased the vulnerabilities of participating countries to each others' adverse events. Brazil could be negatively affected by negative financial and economic developments in other countries. The global financial crisis that occurred in mid-2008 led to reduced liquidity, crashes in credit markets and economic recessions in developed countries, which in turn negatively affected emerging markets. Financial losses and cash deficiencies, bankruptcies of financial and non-financial institutions and a decrease in confidence in economic agents increased risk aversion and led to more cautious lending. Financial institutions, such as us, that are located in emerging markets were susceptible to these events, which negatively affected supply for loans and terms and conditions for borrowers, such as available interest rates and maturities.

The continuation of the economic crisis in Europe, particularly in Greece, Spain, Italy and Portugal, has intensified concerns regarding the sustainability of those countries and caused significant volatility in the global financial markets and reduced foreign investor confidence globally, as has the earthquake in March 2011 in Japan and the downgrade of the U.S. long-term sovereign credit rating by Standard & Poor's Rating Services ("Standard & Poor's") on August 6, 2011. These ongoing events could negatively affect our ability and the ability of other Brazilian financial institutions to obtain financing in the global capital markets, as well as weaken the recovery and growth of the Brazilian and/or foreign economies and cause volatility in the Brazilian capital markets.

Adverse external factors, such as those triggered or aggravated by the global financial crisis, can deteriorate Brazil's economic condition and the ability of customers in the banking system to make payments, which could adversely affect our results of operations and hinder the implementation of our strategies. See "— Deterioration in economic and market conditions in other countries, especially emerging market countries, may adversely affect the Brazilian economy and our business" for more information on risks arising from foreign markets.

*Conditions in the Brazilian economy may limit the ability of our clients to repay their loan obligations.*

The Brazilian economy has been subject to a number of disruptions and conditions that have materially adversely affected the availability of credit to Brazilian companies. Disruptions in the Brazilian economy may adversely affect our ability to grow our loan portfolio and the ability of certain of our clients to timely repay their obligations to us, or may otherwise adversely affect our financial condition or results of operations.

## **Risks Relating to the Notes**

*Noteholders may not be fully compensated for the amount invested in the Notes plus accrued interest if we declare bankruptcy, violate banking regulations on a recurring basis or are insolvent.*

In February 2005, Law No. 11,101, the Bankruptcy Law was enacted in Brazil, the main goal of which is to prevent the liquidation of viable companies that are capable of fulfilling their debt obligations. The Bankruptcy Law seeks to do that by providing greater levels of flexibility to design reorganisation strategies, while increasing safeguards for secured creditors. It also seeks to improve creditors' ability to recover their claims by allowing for judicial approval of settlement agreements and plans of reorganisation between the debtor and a committee of creditors. While the insolvency of financial institutions and mixed capital companies remain governed by specific regimes (intervention, extrajudicial liquidation and temporary special administration, each of which is discussed in further detail below), they are subject to the Bankruptcy Law on a subsidiary basis, to the extent applicable, until such time as a specific set of rules is enacted (Article 197 of the Bankruptcy Law). Therefore, Noteholders will not be able to take full advantage of the Bankruptcy Law's more flexible provisions and must continue to rely on Law No. 6,024, dated March 13, 1974, which governs the intervention into, and the administrative liquidation of financial institutions by the Central Bank. See "The Brazilian Financial System and Banking Regulation—Bank Failure."

The Central Bank may (i) intervene in our operations and management or (ii) liquidate us if we:

- suffer losses due to bad management that places our creditors at risk;
- commit recurrent violations of banking regulations;
- are insolvent; or
- request the Central Bank to intervene in our operations.

During the 12-month intervention period, our liabilities for obligations contracted prior to the commencement of the intervention period are suspended. Upon commencement of an administrative liquidation proceeding against us, all potential and ongoing lawsuits asserting claims over our assets will be automatically suspended, and all of our outstanding obligations will be simultaneously accelerated. In addition, certain credits, such as credits for salaries, among others, will have preference over any other credits, including secured credits. As the Notes are unsecured and would constitute general unsecured claims in an administrative liquidation proceeding, in the event that the Central Bank intervenes in our operations or commences liquidation proceedings against us, Noteholders may not be fully compensated for the amount they invested in the Notes, plus accrued interest. See "The Brazilian Financial System and Banking Regulation—Bank Failure."

*It may be difficult to enforce civil liabilities against us or our directors and officers.*

We are organised under the laws of Brazil, and all of our directors and officers reside in Brazil. In addition, substantially all of our assets and most or all of the assets of our directors and officers are located in Brazil. As a result, it may be difficult for investors to effect service of process outside Brazil on such persons or to enforce judgments against them, including in any action based on civil liabilities under the securities laws of any jurisdiction other than Brazil. See "Enforcement of Judgments."

*We may issue Notes that are subject to a Foreign Currency Constraint.*

The Notes may contain a Foreign Currency Constraint provision, as more fully described in the Conditions and in the applicable Final Terms. Upon the occurrence of a Foreign Currency Constraint Event, holders of Notes affected thereby may elect to exchange the Notes for an equivalent nominal amount of Exchanged Notes with terms and conditions identical to the terms and conditions of the original Notes, except that payments in respect of the Exchanged Notes will be made in the lawful currency of Brazil. Upon termination of the Foreign Currency Constraint Event, Exchanged Notes will be exchanged for an equivalent nominal amount of the original Notes and such holder will receive future payments in respect of the Notes in the Specified Currency of the Notes. If a holder does not elect to receive payments in the lawful currency of Brazil by making such exchange, after the termination

of the Foreign Currency Constraint Event such holder will receive any payments in respect of the Notes in the Specified Currency of the Notes. A Foreign Currency Constraint Event will not be deemed an Event of Default provided that we have fully complied with our obligations under Condition 7(i). Holders of Notes containing a Foreign Currency Constraint provision shall have no recourse against our assets and operations outside Brazil, including, without limitation, our assets and operations in the Cayman Islands.

In the event of the occurrence of a Foreign Currency Constraint Event in Brazil and the decision by a Noteholder to receive amounts due under the Notes in the Specified Currency in which payments are due, interest will accrue on any unpaid principal amounts of the Notes of such Noteholder at the interest rate on such Notes from the date payment was due until the date of payment, subject to limitations in the event that payments are held by financial institutions to comply with certain requirements of the Brazilian government or the Central Bank. For these Notes, interest will not accrue on overdue payments of interest or additional amounts, if any. See “Terms and Conditions of the Notes—Condition 7(i) (Currency Constraint).”

*In the event we are required to pay any amount due in respect of Notes issued through our Cayman Islands Branch from Brazilian sources, it is not certain that the necessary governmental approval will be obtainable at a future date.*

Under Brazilian law, the issue of Notes through our Cayman Islands Branch is not subject to the Central Bank’s prior approval and/or registration. In the event we are required to pay any amount due in respect of such Notes from Brazilian sources, or our principal office is substituted for the Cayman Islands Branch in respect of such Notes in accordance with the terms and conditions of such Notes, we will need the specific approval of the Central Bank. Any specific approval from the Central Bank may only be requested when such payment is to be remitted abroad, and will be granted by the Central Bank on a case-by-case basis. It is not certain that any such approval will be obtainable at a future date.

*Additional Notes issued in the same series may be treated as a separate issue for U.S. federal income tax purposes.*

The Issuer may, without the consent of the holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate issue for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with original issue discount (“OID”) even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. See “Taxation—United States Federal Income Taxation Considerations” for a discussion of OID. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

*Notes issued after 2013, and notes classified as equity for U.S. tax purposes at any time, may be subject to U.S. withholding.*

Under the foreign account tax compliance provisions of the Hiring Incentives to Restore Employment Act of 2010 (“FATCA”), a 30% withholding tax is imposed on certain payments made to certain foreign financial institutions (and their more-than-50% affiliates). In January 2013, final regulations under FATCA were promulgated which provide a detailed set of due diligence, information reporting and disclosure requirements in order for entities to avoid or minimize the withholding tax.

Under FATCA and the final regulations promulgated thereunder, the 30% withholding tax is imposed on “withholdable payments” and certain “foreign passthru payments” made to foreign financial institutions (and their more-than-50% affiliates) unless the payee foreign financial institution enters into an agreement with the U.S. Internal Revenue Service (the “IRS”) to, among other things, annually report certain information about accounts in such payee foreign financial institution held by U.S. persons or entities with substantial U.S. owners. “Withholdable payments” include payments of interest (including original issue discount), dividends, and other items of fixed or determinable annual or periodical gains, profits, and income, in each case, from sources within the United States, as well as gross proceeds from the sale of any property of a type which can produce interest or dividends from sources within the United States. “Foreign passthru payments” generally are certain payments attributable to withholdable payments. While payments on debt instruments issued by foreign financial institutions such as us should generally not be treated as being from sources within the United States, and thus generally should not be subject to the 30%

withholding tax under FATCA for “withholdable payments,” the final regulations have not provided a complete description of every payment that would be a “foreign passthru payment,” and it is therefore uncertain whether and under what circumstances payments on the Notes will be “foreign passthru payments” subject to withholding under FATCA.

Under the final regulations, only Notes issued on or after January 1, 2014 (or Notes subject to a “material modification” on or after January 1, 2014), or Notes issued at any time if such Notes are treated as equity for U.S. federal income tax purposes, will potentially be subject to the withholding tax. Additionally, under the final regulations, withholding on “foreign passthru payments” would not be required before January 1, 2017, and would not be required with respect to any payment on a Note that was outstanding on or before the date six months after the date on which final regulations are issued providing a definition of “foreign passthru payments” (except for a Note that is subject to a “material modification” after such date).

The application of FATCA to interest, principal or other amounts paid with respect to the Notes is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder’s failure to comply with these rules or as a result of the presence in the payment chain of a foreign financial institution that has not entered into an appropriate agreement with the IRS, neither we nor any paying agent nor any other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

Holders of Notes should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

#### *Substitution of the Issuer.*

The terms and conditions of the Notes contain provisions permitting the Issuer, without consent of the Noteholders, to substitute for itself any other branch or office of the Issuer as principal debtor under the Notes. Any such substitution must be by a deed poll and shall be subject to the satisfaction of the conditions set forth in the terms and conditions of the Notes, including the delivery of legal opinions addressed to the Noteholders relating to the assumption by the substitute of all of the obligations of the Issuer under the Notes and other matters relating thereto. See “Terms and Conditions of the Notes—Meetings of Noteholders, Modifications and Substitution—Substitution.”

#### *Subordination to Certain Statutory 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 claims for salaries, wages, social security, other employment related claims and taxes, court fees and expenses will have preference over any other claim, including claims by any holder in respect of the Notes and those guaranteed by a security interest.

#### *Absence of Public Markets.*

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

The liquidity of and trading market for 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 of financial performance.

The market for debt securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions and interest rates in other Latin American countries and emerging market countries. For example, following the various economic crises in the region, the market for debt instruments issued by Latin American companies (including Brazilian companies) has been volatile, and this volatility has adversely affected the price of such securities. There can be no assurance that events in Latin America or elsewhere

will not cause a continuation or recurrence of such market volatility or that such volatility will not adversely affect the price of the Notes or that economic and market conditions will not have any other adverse effect on our business.

*Judgments of Brazilian courts enforcing our obligations under the notes would be payable only in 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 in effect on the date of payment. There can be no assurance that such rate of exchange will afford the full compensation of the amount invested in the notes plus accrued interest, if any.

### ***Risks relating to the Subordinated Notes***

*We may amend the terms and conditions of the Subordinated Notes without your prior consent to qualify the Subordinated Notes as Tier 2 Capital.*

We expect to qualify the Subordinated Notes as Tier 2 Capital subject to Central Bank's approval. The Central Bank's approval may still be pending after the issue of any Series of Subordinated Notes, and the Central Bank may require us to amend certain terms and conditions of the Subordinated Notes as a condition to granting such approval. In relation to any Series of Subordinated Notes, we may one time per Series, without the prior consent of noteholders, amend the terms and conditions of such series of Subordinated Notes solely to comply with the requirements of the Central Bank to qualify the Subordinated Notes as Tier 2 Capital pursuant to CMN Resolution No. 3,444, as amended. We will not be permitted to make any amendments without noteholders' consent if such amendment would affect in any way the interest rate of such Subordinated Notes, the cumulative nature of any interest payment due on amounts in arrears, the outstanding principal amount of such Notes, the ranking of such Subordinated Notes (as described in Condition 3) or the original maturity date of such Subordinated Notes. Any amendment to the Notes may adversely impact your rights as a noteholder and may adversely impact the market value of such Subordinated Notes.

*Our obligations under the Subordinated Notes will be subordinated to certain statutory liabilities.*

The Subordinated Notes will by their terms be subordinated in right of payment to all our current and future secured and unsecured senior indebtedness, including all our obligations to our depositors and all our obligations under financial instruments and derivatives. By reason of the subordination of the Subordinated Notes, in the event of our winding up or dissolution, or similar events, although the Subordinated Notes and any accrued interest thereon will become immediately due and payable, our assets will be available to pay such amounts only after all of our senior obligations have been paid in full.

According to Brazilian bankruptcy regulations, in the event of our liquidation, certain claims, such as claims for salaries, wages and social security from our employees (up to an amount equivalent to 150 times the minimum wage), claims deriving from transactions secured by collateral, as well as taxes and court fees and expenses, will have preference over any other claim, including in respect of the Subordinated Notes. See "Brazilian Banking System and Industry Regulation—Intervention and Administrative Liquidation of Financial Institutions—Repayment of Creditors in a Liquidation" for a discussion of recent measures affecting the priority of repayment of creditors.

*If we do not satisfy our obligations under the Subordinated Notes, your remedies will be limited.*

Payment of principal of the Subordinated Notes may be accelerated only in the event of certain events involving our bankruptcy, extrajudicial liquidation, winding up or dissolution or similar events. There is no right of acceleration in the case of a default in the performance of any of our covenants.

Even if the payment of principal of the Subordinated Notes is accelerated, our assets will be available to pay those amounts only after:

- all of our senior obligations have been paid in full, as described above in “—Our obligations under the Subordinated Notes will be subordinated to certain statutory liabilities;” and
- we are actually declared bankrupt, are liquidated, wound up or are otherwise dissolved for purposes of Brazilian law.

If, after these conditions are met, we make any payment from Brazil, we may be required to obtain the approval of the Central Bank for the remittance of funds outside Brazil. See “—Risks Relating to the Notes—In the event we are required to pay any amount due in respect of the Notes from Brazilian sources, it is not certain that the necessary governmental approval will be obtainable at a future date.”

*Payments to be made by us under the Subordinated Notes may be deferred if we are not in compliance with operational limits required by regulations applicable to Brazilian banks.*

Pursuant to CMN Resolution No. 3,444, dated as of February 28, 2007, as amended, as a condition for the subordinated debt represented by the Subordinated Notes to qualify as Tier 2 Capital, the Terms and Conditions provide that any principal and interest payments to be made by us under the Subordinated Notes on the corresponding payment dates and maturity date shall be deferred if we are not in compliance with operational limits required by regulations applicable to Brazilian banks, and if such payments would cause us to no longer be in compliance with such risk-based capital requirements as in effect from time to time. In such a case, all payments falling due under the Subordinated Notes would be deferred until we are, and if such payment would not cause us to fail to be, in compliance with the risk-based capital requirements. See “Brazilian Banking System and Industry Regulation—Bank Regulations—Capital Adequacy and Leverage.” See Conditions 5(V) and 6(h) for more information on the deferral of interest or principal payments, respectively, under the Subordinated Notes. Any suspension of payments due to our failure to satisfy the risk-based capital requirements would have a material adverse effect on our ability to make scheduled payments under the Subordinated Notes.

## Terms and Conditions of the Notes

*The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the applicable Pricing Supplement, will apply to the Notes referred to in such Pricing Supplement:—*

The Notes (as defined in Condition 1(a)) are constituted by a Trust Deed (as amended or supplemented from time to time, the “Trust Deed”) dated April 23, 2004 and made between Banco Fibra S.A. (acting through its principal office in Brazil or through its Cayman Islands branch) (the “Issuer”) and Deutsche Trustee Company Limited (the “Trustee” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined in Condition 1(c)). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and the Coupons (if any) relating to them (the “Coupons”). Copies of the Trust Deed and of the amended and restated Agency Agreement (as amended or supplemented from time to time, the “Agency Agreement”) dated April 23, 2004 and made between the Issuer, the Trustee and the Agents (as defined below) are available for inspection during usual business hours at the specified offices of each of the Trustee and the principal paying agent, the paying agents, the calculation agent, the registrar, the exchange agent and the transfer agents for the time being. Such persons are referred to below respectively as the “Principal Paying Agent,” the “Paying Agents” (which expression shall include the Principal Paying Agent), the “Calculation Agent,” the “Registrar,” the “Exchange Agent” and the “Transfer Agents” and together as the “Agents.” The Noteholders and the holders of the Coupons (if any) (the “Couponholders”) and, where applicable in the case of interest-bearing Notes in bearer form, talons for further Coupons (the “Talons”) are entitled to the benefit of, are bound by and are deemed to have notice of all of the provisions of the Trust Deed and of the relevant Pricing Supplement (as defined in Condition 1(e)) and are deemed to have notice of those applicable to them of the Agency Agreement.

### 1. Form, Denomination, Title, Specified Currency and Pricing Supplement

(a) *Form:* Each Series (as defined in Condition 1(c)) of Notes of which the Note to which these Conditions are attached forms part (in these Conditions, the “Notes”) is issued either in bearer form (“Bearer Notes”) or in registered form (“Registered Notes”), and either as senior Notes (“Senior Notes”) or subordinated Notes (“Subordinated Notes”), and Notes comprising each such Series will be issued in each case in the nominal amount of a Specified Denomination (as defined in Condition 1(b)). These Conditions must be read accordingly. The Specified Denomination of each Note is specified on it.

A definitive Note will be issued to each holder of Registered Note(s) in respect of its registered holding or holdings (each a “Definitive Registered Note”). Each Definitive Registered Note will be numbered serially with an identifying number which will be recorded in the register (the “Register”) which the Issuer shall procure to be kept by the Registrar.

Bearer Notes which bear interest are issued with Coupons and, where appropriate, Talons attached.

Registered Notes may not be exchanged for Bearer Notes and Bearer Notes may not be exchanged for Registered Notes.

Subordinated Notes will be issued in registered form only in accordance with the provisions of Condition 17.

(b) *Denomination:* “Specified Denomination” means the denomination or denominations specified on such Note. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination (if any).

(c) *Title:* Title to the Bearer Notes, the Coupons relating thereto and, where applicable, the Talons relating thereto shall pass by delivery. Title to the Registered Notes shall pass by registration in the Register. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

In these Conditions, “Noteholder” and, in relation to a Note, Coupon or Talon, “holder,” means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be), “Series” means Notes which have identical terms and conditions, other than in respect of the Issue Date (as defined in Condition 5(III)), the date on which interest commences to accrue and related matters, and “Tranche” means, in relation to a Series, those Notes of such Series which have the same Issue Date.

(d) *Specified Currency*: The Specified Currency of any Note and, if different, any Specified Principal Payment Currency and/or Specified Interest Payment Currency, are as specified on such Note. All payments of principal in respect of a Note shall be made in the Specified Currency or, if applicable, the Specified Principal Payment Currency and all payments of interest in respect of a Note shall be made in the Specified Currency or, if applicable, the Specified Interest Payment Currency.

(e) *Pricing Supplement and Additional Terms*: References in these Conditions to terms specified on a Note shall be deemed to include references to terms specified in the applicable Pricing Supplement issued in respect of a Tranche which includes such Note (each a “Pricing Supplement”), and, in the case of Subordinated Notes, shall be deemed to include terms specified in the subordination nucleus set out in the applicable Pricing Supplement, issued in respect of a Tranche which includes such Subordinated Notes. Capitalised terms used in these Conditions in respect of a Note, and not specifically defined in these Conditions, have the meaning given to them in the applicable Pricing Supplement issued in respect of a Tranche which includes such Note. Additional provisions relating to the Notes may be contained in the Pricing Supplement or specified on the Note and will take effect as if originally specified in these Conditions. The Pricing Supplement in respect of Index Linked Interest Notes, Instalment Notes, Dual Currency Notes and other types of Notes the terms of which are not specifically provided for herein, shall set out in full all terms applicable to such Notes.

## **2. Transfers of Registered Notes and Issue of Definitive Registered Notes**

(a) *Transfer of Registered Notes*: A Registered Note may be transferred in whole or in part in a Specified Denomination upon the surrender of the Definitive Registered Note issued in respect of the Registered Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a Registered Note a new Definitive Registered Note in respect of the balance not transferred will be issued to the transferor. Each new Definitive Registered Note to be issued upon transfer of such Registered Note will, within three business days of receipt of such form of transfer, be mailed at the risk of the holder entitled to the new Definitive Registered Note to such address as may be specified in such form of transfer.

(b) *Transfer Free of Charge*: Registration of transfer will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(c) *Closed Periods*: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal (being, for the purposes of these Conditions, unless the context otherwise requires, the amount payable on redemption of a Note) of that Note, (ii) during the period of 60 days prior to any date on which Notes of the relevant Series may be redeemed by the Issuer at its option pursuant to Condition 6(e) or (iii) after any such Note has been called for redemption in whole or in part in accordance with Condition 6.

(d) *Regulations*: All transfers of Registered Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available by the Registrar to any holder of a Registered Note upon request.

## **3. Status**

(a) *Senior Notes*: The Senior Notes (being those Notes that specify their status in the applicable Pricing Supplement as Senior) and Coupons of all Series comprising Senior Notes constitute (subject to Condition 4) direct, unconditional, unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes and the



Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

(b) *Subordinated Notes*: The Subordinated Notes (being those Notes that specify their status in the applicable Pricing Supplement as Subordinated) constitute unsecured and subordinated obligations of the Issuer and shall be subordinated in right of payment to all existing and future Senior Liabilities of the Issuer in accordance with the provisions of Condition 17.

#### **4. Negative Pledge**

(a) *Negative Pledge*: So long as any Senior Note or Coupon remains outstanding (as defined in the Trust Deed):

- (i) the Issuer will not, and will procure that none of its Subsidiaries will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (“Security”) upon the whole or any part of its or, as the case may be, any such Subsidiary’s undertaking, assets or revenues present or future to secure any Relevant Debt or to secure any guarantee of or indemnity in respect of any Relevant Debt;
- (ii) the Issuer will procure that no other person creates or permits to subsist any Security upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure any of the Issuer’s or any of its Subsidiaries’ Relevant Debt, or to secure any guarantee of or indemnity in respect of any of the Issuer’s or any of its Subsidiaries’ Relevant Debt; and
- (iii) the Issuer will procure that no other person gives any guarantee of, or indemnity in respect of, any of its or any of its Subsidiaries’ Relevant Debt;

unless, at the same time or prior thereto, the Issuer’s obligations under the Senior Notes, the Coupons and the Trust Deed as it applies to the Senior Notes (1) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee, or (2) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in Condition 11(a)) of the Noteholders.

(b) *Definitions*: For the purposes of this Condition 4:

“controlled” in relation to a company by another person means that that other person (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 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.

“Relevant Debt” means any obligation (whether present or future, actual or contingent) for any payment or repayment in respect of money borrowed or raised.

“Subsidiary” means, at any particular time, any company which is then directly or indirectly controlled or more than 50% of whose issued equity share capital (or equivalent) is then beneficially owned by the Issuer and/or one or more of its Subsidiaries.

#### **5. Interest**

One or more of the following provisions apply to each Note, as specified on such Note.

##### **(I) Fixed Rate Notes**

This Condition 5(I) applies to a Note in respect of which the Fixed Rate Note Provisions are specified on such Note as being applicable (a “Fixed Rate Note”).

(a) *Interest Rate and Accrual*: Each Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date (as defined in Condition 5(III)) in respect thereof at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified on such Note. Such interest is payable in arrear on

each Interest Payment Date in each year and on the Maturity Date specified on such Note if that date does not fall on an Interest Payment Date. The amount(s) of interest payable in respect of such Note may be specified on such Note as the Fixed Coupon Amount(s) or, if so specified, the Broken Amount.

The first payment of interest on a Note will be made on the Interest Payment Date next following the relevant Interest Commencement Date. If the period between the Interest Commencement Date and the first Interest Payment Date is different from the period between Interest Payment Dates, the first payment of interest on a Note will be the amount specified on the relevant Note as being the initial Broken Amount. If the Maturity Date is not an Interest Payment Date, interest from (and including) the preceding Interest Payment Date (or from (and including) the Interest Commencement Date, as the case may be) to (but excluding) the Maturity Date will be the amount specified on the relevant Note as being the final Broken Amount.

Interest will cease to accrue on each Note on the due date for redemption unless, upon due presentation or surrender, payment of principal is improperly withheld or refused. In such event interest will continue to accrue at the rate and in the manner provided in this Condition 5(I) (both before and after judgment) until the Relevant Date (as defined in Condition 8) (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

(b) *Calculations:* Interest in respect of a period of less than the period between Interest Payment Dates (or, in the case of the first interest period, the period between the Interest Commencement Date and the first Interest Payment Date) will be calculated using the applicable Day Count Fraction (as defined in Condition 5(III)).

## **(II) Floating Rate Notes**

This Condition 5(II) applies to a Note in respect of which the Floating Rate Note Provisions are specified on such Note as being applicable (a “Floating Rate Note”).

(a) *Specified Interest Payment Dates:* Each Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date (as defined in Condition 5(III)) in respect thereof and such interest will be payable in arrear on each Specified Interest Payment Date (as defined in Condition 5(III)).

(b) *Rate of Interest:* Each Note bears interest at a floating rate which may be based on one or more interest rate or exchange rate indices or as otherwise specified on such Note (each a “Benchmark”). The dates on which interest shall be payable on a Note, the Benchmark and the basis for calculation of each amount of interest payable in respect of such Note on each such date and on any other date on which interest becomes payable in respect of such Note, and the rate (or the basis of calculation of such rate) at which interest will accrue in respect of any amount due but unpaid in respect of such Note shall be as set out below, unless otherwise specified on such Note. Subject to Condition 5(II)(c), the Rate of Interest payable from time to time will, unless otherwise specified on such Note, be determined by the Calculation Agent on the basis of the following provisions:—

- (i) At or about the Relevant Time (as defined in Condition 5(III)) on the relevant Interest Determination Date (as defined in Condition 5(III)) in respect of each Interest Period (as defined in Condition 5(III)), the Calculation Agent will:—
  - (A) in the case of a Note which specifies that the Primary Source for Floating Rate shall be derived from a specified page, section or other part of a particular information service (each as specified on such Note), determine the Rate of Interest for such Interest Period which shall, subject as provided below, be (x) the Reference Rate (as defined in Condition 5(III)) so appearing in or on that page, section or other part of such information service (where such Reference Rate is a composite quotation or interest rate per annum or is customarily supplied by one person) or (y) the arithmetic mean (rounded up, if necessary, to the next one-hundred thousandth of a percentage point) of the Reference Rates of the persons at that time whose Reference Rates so appear in or on that page, section or other part of such information service, in any such case in respect of deposits in the relevant Specified Currency made with or by such person or persons for a period equal to the duration of such Interest Period; and
  - (B) in the case of a Note which specifies that the Primary Source for Floating Rate shall be the Reference Banks specified on such Note and in the case of a Note falling within Condition 5(II)(b)(i)(A) but in respect of which (x) no Reference Rate appears at or about such Relevant Time or (y) the Rate of Interest for which is to be determined by reference to quotations of persons

appearing in or on the relevant page, section or other part of such information service as provided in Condition 5(II)(b)(i)(A) but in respect of which less than two Reference Rates appear at or about such Relevant Time, request the principal offices in the Relevant Banking Centre (as defined in Condition 5(III)) of each of the Reference Banks specified on such Note (or, as the case may be, any substitute Reference Bank appointed from time to time pursuant to Condition 5(II)(h)) to provide the Calculation Agent with its Reference Rate quoted to leading banks for deposits in the relevant Specified Currency for a period equivalent to the duration of such Interest Period. Where this Condition 5(II)(b)(i)(B) applies, the Rate of Interest for the relevant Interest Period shall, subject as provided below, be the arithmetic mean (rounded up, if necessary, to the next one-hundred thousandth of a percentage point) of such Reference Rates as calculated by the Calculation Agent.

- (ii) If at or about the Relevant Time on any Interest Determination Date where the Rate of Interest is to be determined pursuant to Condition 5(II)(b)(i)(B) in respect of a Note, more than one but not all of such Reference Banks provide such relevant quotations, the Rate of Interest for the relevant Interest Period shall, subject as provided below, be determined as aforesaid on the basis of the Reference Rates quoted by those Reference Banks.
- (iii) If at or about the Relevant Time on any Interest Determination Date where the Rate of Interest is to be determined pursuant to Condition 5(II)(b)(i)(B), only one or none of such Reference Banks provide such Relevant Rates, the Rate of Interest for the relevant Interest Period shall, subject as provided below, be whichever is the higher of:—
  - (A) the Rate of Interest in effect for the last preceding Interest Period to which Condition 5(II)(b)(i)(A) or (B) or Condition 5(II)(b)(ii) applied; and
  - (B) the rate per annum (expressed as a percentage) which the Calculation Agent determines to be the arithmetic mean (rounded up, if necessary, to the next one-hundred thousandth of a percentage point) of the Reference Rates in respect of the relevant currency which banks in the Relevant Financial Centre for such Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent (after consultation with the Issuer) are quoting at or about the Relevant Time on the relevant Interest Determination Date for a period equivalent to such Interest Period to leading banks carrying on business in that Relevant Financial Centre or, if the Specified Currency is euro, in Europe, provided that, if the banks so selected by the Calculation Agent are not quoting as aforesaid, the Rate of Interest shall, subject as provided below, be the rate of interest specified in Condition 5(II)(b)(iii)(A).
- (iv) In the case of a Note which specifies that the manner in which the Rate of Interest is to be determined shall be ISDA Determination, the Rate of Interest for each Interest Period shall, subject as provided below, be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (iv), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (X) the Floating Rate Option is as specified on such Note;
  - (Y) the Designated Maturity is a period specified on such Note; and
  - (Z) the relevant Reset Date is the first day of that Interest Period unless otherwise specified on such Note.For the purposes of this sub-paragraph (iv), “Floating Rate,” “Calculation Agent,” “Floating Rate Option,” “Designated Maturity,” “Reset Date” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

(c) *Minimum/Maximum Rates:* If a Minimum Rate of Interest is specified on a Note, then the Rate of Interest applicable to that Note shall in no event be less than it and if a Maximum Rate of Interest is specified on a Note, then the Rate of Interest applicable to that Note shall in no event exceed it.

(d) *Determination of Rate of Interest and Calculation of Interest Amounts:* The Calculation Agent will, as soon as practicable after the Relevant Time on each Interest Determination Date, determine the Rate of Interest in

the manner provided for in this Condition 5 and calculate the amount of interest payable (the “Interest Amounts”) in respect of each Specified Denomination of the relevant Notes (in the case of Bearer Notes) and the minimum Specified Denomination (in the case of Registered Notes) for the relevant Interest Period. The Interest Amounts shall be calculated by applying the Rate of Interest adjusted, if necessary, by any Margin (as defined in Condition 5(III)) and/or Rate Multiplier (as defined in Condition 5(III)) to each Specified Denomination (in the case of Bearer Notes) and the minimum Specified Denomination (in the case of Registered Notes), and multiplying such product by the applicable Day Count Fraction (as defined in Condition 5(III)) rounding, if necessary, the resultant figure to the nearest unit of the relevant currency (half of such unit being rounded upwards or, in the case of Yen downwards). The determination of the Rate of Interest and the Interest Amounts by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

(e) *Notification of Rate of Interest and Interest Amounts:* The Calculation Agent will cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Specified Interest Payment Date to be notified to the Trustee, the Issuer, each of the Agents, the Noteholders (in accordance with Condition 17) and if the relevant Notes are for the time being listed on any stock exchange (each an “Exchange”) and the rules of that Exchange so require, the Exchange as soon as possible after their determination but in no event later than two Relevant Business Days (as defined in Condition 5(III)) after their determination. The Interest Amounts and the Specified Interest Payment Date so notified may subsequently be amended by the Calculation Agent (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. The Calculation Agent shall cause any amendments in the event of an extension or shortening of the Interest Period to be notified in accordance with the foregoing provisions of this Condition 5(II)(e).

(f) *Interest Accrual:* Interest will cease to accrue on each Note on the due date for redemption unless, upon due presentation or surrender, payment of principal is improperly withheld or refused. In such event interest will continue to accrue at the rate and in the manner provided in this Condition 5(II) (both before and after judgment) until the Relevant Date (as defined in Condition 8) (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

(g) *Determination or Calculation by the Trustee:* If the Calculation Agent does not at any time for any reason determine the Rate of Interest or calculate the Interest Amounts for an Interest Period, the Trustee shall do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition 5(II), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(h) *Calculation Agent and Reference Banks:* The Issuer will procure that, so long as any Note to which this Condition 5(II) applies remains outstanding, there shall at all times be a Calculation Agent for such Note and, so long as the Primary Source for Floating Rate for such Note is Reference Banks, there shall at all times be four Reference Banks with offices in the Relevant Banking Centre. The Issuer will also ensure that, in the case of any Note the determination of interest for which falls within Condition 5(II)(b)(i)(A) and in respect of which no Reference Rate appears at or about the Relevant Time, or in respect of which less than two Reference Rates appear at or about the Relevant Time, there shall be four Reference Banks appointed for such Note with offices in the Relevant Banking Centre. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank then the Issuer will appoint another Reference Bank with an office in the Relevant Banking Centre to act as such in its place. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period or to calculate the Interest Amounts, the Issuer will appoint the London office of a leading bank engaged in the London and international interbank markets to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

### **(III) Definitions**

As used in these Conditions:

“Business Day Convention” means either:

- (A) the “Floating Rate Business Day Convention,” in which case interest on a Note shall be payable on each Specified Interest Payment Date which numerically corresponds to its Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date in the calendar month

which is the Interest Period specified on such Note after the calendar month in which such Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date occurred, provided that:

- (1) if there is no such numerically corresponding day in the calendar month in which a Specified Interest Payment Date should occur, then the relevant Specified Interest Payment Date will be the last day which is a Relevant Business Day (as defined below) in that calendar month;
  - (2) if a Specified Interest Payment Date would otherwise fall on a day which is not a Relevant Business Day, then the relevant Specified Interest Payment Date will be the first following day which is a Relevant Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Relevant Business Day; and
  - (3) if such Interest Commencement Date or the preceding Specified Interest Payment Date occurred on the last day in a calendar month which was a Relevant Business Day, then all subsequent Specified Interest Payment Dates in respect of such Note will be the last day which is a Relevant Business Day in the calendar month which is the Interest Period specified on such Note after the calendar month in which such Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date occurred; or
- (B) the “Modified Following Business Day Convention,” in which case interest on a Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first following day which is a Relevant Business Day unless that day falls in the next calendar month, in which case the relevant Interest Payment Date or Specified Interest Payment Date will be the first preceding day which is a Relevant Business Day; or
- (C) the “Following Business Day Convention,” in which case interest on a Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first following day which is a Relevant Business Day; or
- (D) the “Preceding Business Day Convention,” in which case interest on a Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first preceding day which is a Relevant Business Day; or
- (E) such other Business Day Convention as may be specified on the relevant 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”):

- (i) if “Actual/Actual” or “Actual/Actual - ISDA” is specified on such Note, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified on such Note, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/360” is specified on such Note, the actual number of days in the Calculation Period divided by 360;
- (iv) if “30/360,” “360/360” or “Bond Basis” is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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;

- (v) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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>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, in which case D<sub>2</sub> will be 30;

- (vi) if “30E/360 (ISDA)” is specified hereon the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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<sub>2</sub> will be 30; and

- (vii) if “Actual/Actual - ISMA” is specified on such Note, (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and (b) if the Calculation Period is longer than one Determination Period, the sum of: (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year.

for the purposes of this definition of Day Count Fraction:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“Determination Date” means the date specified as such on the relevant Note or, if none is so specified, the Interest Payment Date.

“Interest Commencement Date” means, in the case of the first issue of a Note or Notes of a Series, the Issue Date or such other date as may be specified as the Interest Commencement Date on such Note.

“Interest Determination Date” means, in respect of any Interest Period, the date which falls that number of days specified on the relevant Note on which banks and foreign exchange markets are open for business in the Relevant Banking Centre prior to the first day of such Interest Period or, if none is so specified, the day falling two Relevant Business Days prior to the first day of such Interest Period.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date to (but excluding) the first Specified Interest Payment Date and each successive period beginning on (and including) a Specified Interest Payment Date to (but excluding) the next succeeding Specified Interest Payment Date.

“ISDA Definitions” means the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified on the relevant Note.

“Issue Date” means, in respect of any Note or Notes, the date of issue of such Note or Notes.

“Margin” means the percentage rate per annum specified on the relevant Note.

“Rate Multiplier” means the percentage rate or number applied to the relevant Rate of Interest, as specified on the relevant Note.

“Reference Rate” means, for any Note, the bid, offered or mean of bid and offered rate, as specified on such Note, for the floating rate specified on such Note.

“Relevant Banking Centre” means, for any Note, the Relevant Banking Centre specified on such Note or, if none is so specified, the banking centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR shall be Europe) or, if none is so connected, London.

“Relevant Business Day” means:—

(A) in the case of a currency other than euro, a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the Relevant Financial Centre; or

(B) in the case of euro, a TARGET Business Day; and

(C) in the case of any currency, a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the Business Centre(s) specified on the relevant Note.

“Relevant Financial Centre” means the principal financial centre for the relevant currency (which in the case of euro shall be Europe).

“Relevant Time” means the local time in the Relevant Banking Centre at which it is customary to determine bid, mean and offered rates in respect of deposits in that currency in the interbank market in that Relevant Banking Centre or, if no such customary local time exists, 11.00 hours in the Relevant Banking Centre and for this purpose “local time” means, with respect to Europe as a Relevant Banking Centre, Brussels time.

“Specified Interest Payment Date” means each date which falls the Interest Period specified on the relevant Note after the preceding Specified Interest Payment Date or, in the case of the first Specified Interest Payment Date, after the Interest Commencement Date or as is otherwise specified as such on the relevant Note, in each case as adjusted by the Business Day Convention specified on such Note.

“TARGET Business Day” means a day on which the TARGET System is operating.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on November 19, 2007 or any successor thereto.

#### **(IV) Zero Coupon**

This Condition 5(IV) applies to a Note in respect of which the Zero Coupon Note Provisions are specified on such Note as being applicable (a “Zero Coupon Note”).

References to the amount of interest payable (other than as provided below), Coupons and Talons in these Conditions are not applicable. Where a Note becomes repayable prior to its Maturity Date and is not paid when due, the amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as determined in accordance with Condition 6(d)(i)(C). Where a Note is to be redeemed on its Maturity Date, any overdue principal of such Note shall bear interest at a rate per annum (expressed as a percentage) equal to the Amortisation Yield specified on such Note. Such interest shall continue to accrue (on the same basis as referred to in Condition 5(I)) (both before and after judgment) to the Relevant Date.

#### **(V) Deferral of Interest on Subordinated Notes**

Subordinated Notes, whether such Subordinated Notes are Fixed Rate Notes, Floating Rate Notes or Zero Coupon Notes, shall be subject to the provisions relating to deferral of interest set forth in Condition 17.

### **6. Redemption and Purchase**

(a) *Final Redemption:* Unless previously redeemed or purchased and cancelled, and subject as provided in Condition 6(h), each Note will be redeemed at its redemption amount (“Final Redemption Amount”) being its nominal amount or such other amount as is specified on such Note on the applicable Maturity Date specified on such Note.

(b) *Purchases:* The Issuer and any of its Subsidiaries may at any time purchase Senior Notes at any price (provided that in the case of Senior Notes that are Bearer Notes they are purchased together with all unmaturing Coupons and unexchanged Talons relating to them) in the open market or otherwise, provided that in any such case



such purchase or purchases are in compliance with all relevant laws, regulations and directives. The Senior Notes so purchased, while held by or on behalf of the Issuer or any of its Subsidiaries, shall not entitle the holder to vote at any meetings of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 11 and 12. The Issuer and any of its Affiliates (as defined in Condition 17) may purchase Subordinated Notes in the open market or otherwise only in accordance with the provisions set forth in Condition 17.

(c) *Redemption of Senior Notes for Taxation Reasons:* Senior Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of a Senior Note the interest basis for which is specified on such Senior Note as Fixed Rate or Zero Coupon) or on any Specified Interest Payment Date (in the case of a Senior Note the interest basis for which is specified on such Senior Note as Floating Rate), on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 18 (which notice shall be irrevocable), at their Early Redemption Amount (together with interest accrued to the date fixed for redemption), or (in the case of Senior Notes the interest basis for which is specified on such Senior Note as Zero Coupon) at their Amortised Face Amount (as determined in accordance with Condition 6(d)(i)(C)), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 in excess of the additional amounts which would be payable in respect of deductions or withholdings made at the rate of the Original Withholding Level, if any, specified on such Senior Notes as a result of any change in, or amendment to, the laws or regulations of Brazil, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date in respect of the relevant Series, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of such Senior Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

(d) *Early Redemption of Senior Notes:*

(i) *Zero Coupon Notes:* This Condition 6(d)(i) applies to a Zero Coupon Note that is a Senior Note.

(A) The amount payable in respect of any Senior Note upon redemption of such Senior Note pursuant to Condition 6(c), (e) or (f), if applicable, or upon it becoming due and payable as provided in Condition 9, shall be the Amortised Face Amount (calculated as provided below) of such Senior Note unless otherwise specified on such Senior Note.

(B) Subject to Condition 6(d)(i)(C), the "Amortised Face Amount" of any Senior Note shall be the sum of (A) the Reference Price specified on such Senior Note and (B) the aggregate amortisation of the difference between the Reference Price and the nominal amount of such Senior Note from the Issue Date to the date on which the Senior Note becomes due and payable calculated at a rate per annum (expressed as a percentage) equal to the Amortisation Yield specified on such Senior Note applied to the Reference Price in the manner specified on such Senior Note. Where the specified calculation is to be made for a period of less than one year, it shall be made using the applicable Day Count Fraction.

(C) If the amount payable in respect of any Senior Note upon redemption of such Senior Note pursuant to Condition 6(c), (e) or (f), if applicable, or upon it becoming due and payable as provided in Condition 9, is not paid when due, the amount due and payable in respect of such Senior Note shall be the Amortised Face Amount of such Senior Note as defined in Condition 6(d)(i)(B), except that Condition 6 shall have effect as though the reference therein to the date on which the Senior Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this Condition 6(d)(i)(C) will continue to be made (both before and after judgment) until the Relevant Date unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the nominal amount of such Senior Note together with any interest which may accrue on such Senior Note in accordance with Condition 5(IV).

- (ii) *Other Senior Notes:* The Early Redemption Amount payable in respect of any Senior Note (other than Senior Notes described in Condition 6(d)(i) above), upon redemption of such Senior Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 9, shall be the Final Redemption Amount unless otherwise specified on such Senior Note.

(e) *Redemption of Senior Notes at the Option of the Issuer (Call Option):* If so provided on a Senior Note, the Issuer may, subject to compliance with all relevant laws, regulations and directives, on giving to the holder of such Senior Note irrevocable notice in accordance with Condition 18 of not less than 30 nor more than 45 days (or such other notice period as specified on such Senior Note) redeem all or, if so specified on such Senior Note, some of the Series of Notes of which such Senior Note forms part, on the Optional Redemption Date(s) specified on such Senior Notes (which shall, in the case of a Senior Note which has applicable to it at the time of redemption an interest basis which is specified on such Senior Note as Floating Rate, be a Specified Interest Payment Date) at the amount specified on such Senior Note as the Optional Redemption Amount together with interest accrued to (but excluding) the date fixed for redemption. All Senior Notes in respect of which any such notice is given shall be redeemed on the Optional Redemption Date(s) specified in such notice in accordance with this Condition 6(e). If some only of the Senior Notes of a Series are to be redeemed at any time, the Senior Notes to be redeemed shall be determined by the drawing of lots. In the case of a partial redemption by way of lot, the notice to Noteholders shall also contain the certificate numbers and nominal amount of the Senior Notes to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws, clearing system and Exchange requirements.

(f) *Redemption of Senior Notes at the Option of Noteholders (Put Option):* If so provided on a Senior Note, the Issuer shall, subject to compliance with all relevant laws, regulations and directives, at the option of the holder of such Senior Note, redeem such Senior Note on the Optional Redemption Date(s) specified on such Senior Note (which shall, in the case of a Senior Note which has applicable to it at the time of redemption an interest basis which is specified on such Senior Note as Floating Rate, be a Specified Interest Payment Date) at the amount specified on such Note as the Optional Redemption Amount together with interest accrued to (but excluding) the date fixed for redemption. To exercise such option the holder must deposit such Senior Note with any Paying Agent (in the case of Bearer Notes) or the Registrar or any Transfer Agent (in the case of Registered Notes) at their respective specified offices, together with a duly completed notice of redemption (“Redemption Notice”) in the form obtainable from any Agent not more than 60 nor less than 46 days (or such other deposit period as may be specified on such Senior Note) prior to the relevant date for redemption. No Senior Note (or Redemption Notice) so deposited may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer. Notice of not more nor less than the number of days specified on such Senior Note of the commencement of any period for the deposit of Senior Notes for redemption pursuant to this Condition 6(f) shall be given by the Issuer to Noteholders in accordance with Condition 18.

(g) *Redemption of Subordinated Notes:* Subordinated Notes may be redeemed at the option of the Issuer only in accordance with the provisions set forth in Condition 17. Subordinated Notes may not be redeemed at the option of holders of Subordinated Notes.

(h) *Deferral of Principal on Subordinated Notes:* Subordinated Notes shall be subject to the provisions relating to deferral of principal payments thereon set forth in Condition 17.

(i) *Cancellation:* All Notes redeemed in accordance with this Condition 6, and any unmatured Coupons or Talons attached to them, will be cancelled forthwith. Any Notes purchased in accordance with this Condition 6, and any unmatured Coupons or Talons purchased with them, may at the option of the Issuer be cancelled or may be resold. Notes which are cancelled following any redemption or purchase made in accordance with this Condition 6 may at the option of the Issuer be re-issued together with any unmatured Coupons or Talons. Any resale or re-issue pursuant to this Condition 6(i) shall only be made in compliance with all relevant laws, regulations and directives.

## **7. Payments**

- (a) Bearer Notes:

- (i) Payments of Principal and Interest

Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made against presentation and surrender of the relevant Bearer Notes or Coupons, as the case may be, at the specified office of any Paying Agent outside the United States and its possessions:—

- (1) in respect of payments denominated in a Specified Currency other than U.S. dollars, at the option of the holder either by a cheque in such Specified Currency drawn on, or by transfer to an account in such Specified Currency maintained by the payee with a bank in the Relevant Financial Centre of such Specified Currency, or in the case of euro, in a city in which banks have access to the TARGET System;
- (2) in respect of payments denominated in U.S. dollars, subject to Condition 7(a)(ii), at the option of the holder either by a U.S. dollar cheque drawn on a bank in New York City or by transfer to a U.S. dollar account maintained by the payee with a bank outside the United States; or
- (3) as may otherwise be specified on such Notes as an Alternative Payment Mechanism.

(ii) Payments in the United States

Notwithstanding the foregoing, payments in respect of Bearer Notes denominated in U.S. dollars may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (1) the Maturity Date of such Bearer Notes is not more than one year from the Issue Date for such Bearer Notes or (2) (a) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bearer Notes in the manner provided above when due, (b) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (c) such payment is then permitted by United States law. If, under such circumstances, a Bearer Note is presented for payment of principal at the specified office of any Paying Agent in the United States or its possessions in circumstances where interest (if any is payable against presentation of the Bearer Note) is not to be paid there, the relevant Paying Agent will annotate the Bearer Note with the record of the principal paid and return it to the holder for the obtaining of interest elsewhere.

(iii) Payments on Business Days

Subject as provided on a Note, if any date for payment in respect of any Bearer Note or Coupon comprising all or part of a Tranche is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(a), “business day” means a day on which banks are open for business in the relevant place of presentation, in such jurisdictions as shall be specified on such Note as “Financial Centres” and:—

- (1) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant Specified Currency, on which dealings may be carried on in the Relevant Financial Centre of such Specified Currency; or
- (2) in the case of payment in euro, a day which is a TARGET Business Day.

If the due date for redemption or repayment of any Bearer Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note. Interest accrued on a Bearer Note the interest basis for which is specified on such Note as Zero Coupon from its Maturity Date shall be payable on repayment of such Bearer Note against presentation thereof.

(b) *Registered Notes:*

(i) Payments of Principal and Interest

Payments of principal and interest in respect of Registered Notes will be made or procured to be made by the Principal Paying Agent to the person shown on the Register at the close of business on the fifteenth DTC business day before the due date for payment thereof (the “Record Date”):—

- (1) by cheque drawn on, or by transfer to an account in such Specified Currency maintained by the payee with, a bank in the Relevant Financial Centre of such Specified Currency or, in the case of euro, in a city in which banks have access to the TARGET System; or
- (2) as may otherwise be specified on such Notes as an Alternative Payment Mechanism,

subject in each case to Condition 7(b)(iii). For the purposes of this Condition 7(b), “DTC business day” means any day on which DTC (as defined in Condition 7(b)(iii)) is open for business.

Payments of principal in respect of Registered Notes will only be made against surrender of the relevant Definitive Registered Note at the specified office of any Transfer Agent. Upon application by the holder to the specified office of any Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment will be made by transfer to an account maintained by the payee with a bank in the Relevant Financial Centre or, in the case of euro, in a city in which banks have access to the TARGET System. Details of the account to which a registered holder’s payments will be made should be notified by the holder to the specified office of the Principal Paying Agent before the Record Date preceding the relevant date for payment. If the amount of principal being paid is less than the nominal amount of the relevant Definitive Registered Note, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Noteholder) issue a new Definitive Registered Note with a nominal amount equal to the remaining unpaid nominal amount.

(ii) Payment Initiation

Where payment is to be made by transfer to an account in the relevant Specified Currency, payment instructions (for value the due date, or if that is not a Relevant Business Day, for value the first following day which is a Relevant Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Definitive Registered Note has not been surrendered at the specified office of any Transfer Agent, on a day on which the Principal Paying Agent is open for business and on which the relevant Definitive Registered Note is surrendered.

(iii) Payments Through The Depository Trust Company

Registered Notes, if so specified on them, will be issued in the form of one or more Definitive Registered Notes registered in the name of, or the name of a nominee for, The Depository Trust Company (“DTC”). Payments of principal and interest in respect of Registered Notes denominated in U.S. dollars will be made in accordance with Conditions 7(b)(i) and (ii). Payments of principal and interest in respect of Registered Notes registered in the name of, or in the name of a nominee for, DTC and denominated in a Specified Currency other than U.S. dollars will be made or procured to be made by the Principal Paying Agent in the relevant Specified Currency in accordance with the following provisions. The amounts in such Specified Currency payable by the Principal Paying Agent or its agent to DTC with respect to Registered Notes held by DTC or its nominee will be received from the Issuer by the Principal Paying Agent who will make payments in such Specified Currency by wire transfer of same day funds to the designated bank account in such Specified Currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of interest payment, on or prior to the third DTC business day after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least 12 DTC business days prior to the relevant payment date, to receive that payment in such Specified Currency. The Principal Paying Agent, after the Exchange Agent has converted amounts in such Specified Currency into U.S. dollars, will deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such Specified Currency. The Agency Agreement sets out the manner in which such conversions are to be made.

(iv) Delay in Payment

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Relevant Business Day, if the Noteholder is late in surrendering or cannot surrender its Definitive Registered Note (if required to do so) or if a cheque mailed in accordance with Condition 7(b)(ii) arrives after the due date for payment.

(v) **Payment Not Made in Full**

If the amount of principal or interest which is due on any Registered Note is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest, if any, in fact paid on such Registered Note.

(c) *Payments Subject to Law, etc.:* All payments are subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) *Appointment of Agents:* The Paying Agents, the Registrar, the Calculation Agent, the Exchange Agent and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Issuer reserves the right at any time, with the prior approval of the Trustee, to vary or terminate the appointment of any Agent, to appoint another Registrar, Exchange Agent or Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer will at all times maintain (i) a Principal Paying Agent, (ii) a Registrar and a Transfer Agent in New York City, (iii) a Paying Agent and a Transfer Agent having a specified office in a European city which, so long as the Exchange on which the Notes are listed is the Luxembourg Stock Exchange and the rules of that exchange so require, shall be Luxembourg, (iv) a Paying Agent having a specified office in a Member State of the European Union, which Member State will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, (v) a Calculation Agent and (vi) an Exchange Agent. In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(a)(ii). Notice of any such change or any change in the specified office of any Agent will promptly be given to the Noteholders in accordance with Condition 17.

(e) *Unmatured Coupons and Unexchanged Talons:*

- (i) Bearer Notes the interest basis for which is specified on such Notes as being Fixed Rate, other than Notes which are specified to be Long Maturity Notes (being Notes whose nominal amount is less than the aggregate interest payable thereon on the relevant dates for payment of interest under Condition 5(I)(a)), should be surrendered for payment of principal together with all unmatured Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment on such Note. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10). If the date for payment of principal is any date other than a date for payment of interest, the accrued interest on such principal shall be paid only upon presentation of the relevant Note.
- (ii) If so specified on a Bearer Note, upon the due date for redemption of any Bearer Note either the interest basis for which is specified on such Note as being Floating Rate at any time or which is a Long Maturity Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note either the interest basis for which is specified on such Note as being Floating Rate at any time or which is a Long Maturity Note, is presented for redemption without all unmatured Coupons relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption of such Bearer Note shall be made only against the provisions of such indemnity as the Issuer may require.

(f) *Talons:* Except where such Talon has become void pursuant to Condition 7(e)(iii), on or after the Interest Payment Date or, as the case may be, the Specified Interest Payment Date for the final Coupon forming part of a

Coupon sheet issued in respect of any Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (but excluding any Coupons which may have become void pursuant to Condition 10).

## 8. Taxation

All payments by or on behalf of the Issuer in respect of the Notes and the Coupons will be made free and clear of, and without withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges (together, the "Taxes") of whatever nature imposed, levied, collected, withheld or assessed by or within Brazil or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders or, as the case may be, the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:—

- (i) in the case of Bearer Notes or Coupons:—
  - (a) to a holder (or to a third party on behalf of a holder) where such holder is liable to such Taxes in respect of such Bearer Note or Coupon by reason of it having some connection with Brazil other than the mere holding of such Bearer Note or Coupon; or
  - (b) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days; or
  - (c) 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 European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
  - (d) presented for payment by or on behalf of a Noteholder or a Couponholder 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.
- (ii) in the case of Registered Notes:—
  - (a) to a holder (or to a third party on behalf of a holder) where such holder is liable to such Taxes in respect of such Registered Note by reason of it having some connection with Brazil, other than the mere holding of such Registered Note or the receipt of the relevant payment in respect thereof; or
  - (b) if the Definitive Registered Note in respect of such Registered Note is required to be surrendered and is surrendered more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days; or
  - (c) 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 European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

As used in these Conditions, "Relevant Date" in respect of any Note or Coupon means the date on which payment in respect thereof first becomes due or (if the full amount of the money payable has not been received by the Trustee or the Principal Paying Agent on or prior to such due date) the date on which notice is duly given to the Noteholders in accordance with Condition 17 that such moneys have been so received and are available for payment. References in these Conditions to "principal" shall be deemed to include "Amortised Face Amount," "Final Redemption Amount," "Optional Redemption Amount" and "Early Redemption Amount" and any premium payable in respect of the Notes and any reference to "principal" and/or "interest" shall be deemed to include any additional amounts which may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

## 9. Events of Default

If any of the following events occurs the Trustee at its discretion may in respect of the Notes of any Series, and if so requested by holders of at least 20% in nominal amount of the Notes of such Series then outstanding or if so directed by an Extraordinary Resolution of Noteholders of such Series shall, give notice to the Issuer that the Notes of such Series are, and they shall immediately become, due and payable at the Early Redemption Amount specified on such Notes or, if none is so specified, at the nominal amount specified on such Notes together with accrued interest to the date of redemption or, in relation to Zero Coupon Notes, the Amortised Face Amount of such Notes:—

(i) in the case of Subordinated Notes:—

- (a) *Non-Payment*: the Issuer fails to pay any principal of or interest on any of the Subordinated Notes when due, other than due to a deferral of principal or interest, as set forth in Condition 17 and in respect of interest, such non-payment continues for 15 days; or
- (b) *Insolvency*: the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as they become due, stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Trustee) a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or
- (c) *Winding Up*: an order is made or an effective resolution passed for the winding up or dissolution or administration of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or (in the opinion of the Trustee) a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Subsidiary, whereby the undertaking and the assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries

provided that in the case of paragraphs (b) and (c) with respect to Subsidiaries only, the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

(ii) in the case of Senior Notes:—

- (a) *Non-Payment*: the Issuer fails to pay any principal of or interest on any of the Senior Notes when due; or
- (b) *Breach of Other Obligations*: the Issuer does not perform or comply with any one or more of its other obligations in the Senior Notes or the Trust Deed as it applies to Senior Notes which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or
- (c) *Cross Default*: (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds U.S.\$1,000,000 or its equivalent in another currency or other currencies (as reasonably determined by the Trustee); or
- (d) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any

of its Subsidiaries in respect of one or more claims the aggregate of which equals or exceeds U.S.\$1,000,000 (or its equivalent in any other currency as reasonably determined by the Trustee) and is not discharged or stayed within 30 days; or

- (e) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries and securing an amount which equals or exceeds U.S.\$1,000,000 (or its equivalent in any other currency as reasonably determined by the Trustee) becomes enforceable against all or any part of the property of the Issuer (taken as a whole with its Subsidiaries) and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or
- (f) *Insolvency*: the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as they become due, stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Trustee) a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or
- (g) *Winding Up*: an order is made or an effective resolution passed for the winding up or dissolution or administration of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or (in the opinion of the Trustee) a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Subsidiary, whereby the undertaking and the assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or
- (h) *Change of Control*: the Issuer ceases to be owned and controlled by any or all of Dorothea Steinbruch, Benjamin Steinbruch, Elisabeth Steinbruch, Ricardo Steinbruch, Eliezer Steinbruch, Leo Steinbruch, Fábio Steinbruch and Clarice Steinbruch, including, in each case, the estate of such person, whether directly or indirectly or whether by the ownership of share capital, the possession of voting power, contract or otherwise, such persons cease to have the power to appoint and/or remove the majority of the members of the Board of Directors or other governing body of the Issuer or otherwise control or have the power to control the affairs and policies of the Issuer; or
- (i) *Authorisations and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Senior Notes, the Coupons and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable or (iii) to make the Senior Notes, the Coupons and the Trust Deed admissible in evidence in the courts of Brazil is not taken, fulfilled or done; or
- (j) *Illegality*: 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 Senior Notes or the Trust Deed as it applies to the Senior Notes; or
- (k) *Analogous Events*: any event occurs which under the laws of Brazil or any other relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs;

provided that in the case of paragraphs (b), (d), (e), (i) and (j) and, in the case of Subsidiaries only, paragraphs (f) and (g), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.



## 10. Prescription

Claims against the Issuer for payment in respect of the Notes and Coupons (which, for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) and 5 years (in the case of interest) from the appropriate Relevant Date in respect thereof.

## 11. Meetings of Noteholders, Modification, Waiver and Substitution

(a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders of a 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 and/or prefunded to its satisfaction against all costs and expenses thereby occasioned) shall convene such a meeting upon written request of Noteholders holding not less than 10% in nominal 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 two or more persons holding or representing in aggregate more than 50% in nominal amount of the Notes of the relevant Series for the time being outstanding, or at any adjourned meeting two or more persons holding or representing holders of Notes of the relevant Series whatever the nominal amount of the Notes of the relevant Series held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes of any Series or any date for payment of interest thereon, (ii) to reduce or cancel the nominal amount, Final Redemption Amount, Optional Redemption Amount or Early Redemption Amount (if any) of the Notes of any Series, (iii) to reduce the rate or rates of interest in respect of the Notes of any Series or to vary the method or basis of calculating the rate or rates or amount of interest, (iv) if there is specified on the Notes of any Series a Minimum Rate of Interest and/or a Maximum Rate of Interest, to reduce such Minimum Rate of Interest and/or such Maximum Rate of Interest, (v) to change the method of calculating the Amortised Face Amount (if any) of any Series, (vi) to change the currency or currencies of payment of the Notes of any Series or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders of any Series or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in nominal amount of the Notes of the relevant Series for the time being outstanding. An "Extraordinary Resolution" is defined in the Trust Deed to mean a resolution passed at a meeting of Noteholders duly convened and held in accordance with the provisions of the Trust Deed by a majority of at least 75% of the votes cast. A written resolution of holders of not less than 90% in nominal amount of the Notes of the relevant Series for the time being outstanding shall take effect as an Extraordinary Resolution for all purposes. Any Extraordinary Resolution duly passed shall be binding on all holders of Notes of the relevant Series (whether or not they were present or represented at the meeting at which such resolution was passed) and on all Couponholders (if any).

(b) *Modification, Waiver and Determination:* The Trustee may, without the consent of the Noteholders or Couponholders, (i) agree to any modification of any of the provisions of the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) agree to any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed and the Trustee may, without the consent of the Noteholders or Couponholders, subject as provided in the Trust Deed, determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) will not be treated as such, provided that any such modification referred to in (ii) above or any waiver or determination is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders in accordance with Condition 18 as soon as practicable.

(c) *Modification by the Issuer:* In relation to any Series of Subordinated Notes, the Issuer and the Trustee may (once per Series), without the consent of the Noteholders, modify the terms and conditions of such Subordinated Notes solely to comply with the requirements of the Central Bank in order to qualify such Subordinated Notes as Tier 2 Capital pursuant to Resolution 3,444, as amended. The Issuer will not be permitted to make any modifications without Noteholders' consent if such modification would affect in any way the interest rate of such Subordinated Notes, the cumulative nature of any interest payment due on amounts in arrears, the outstanding principal amount of such Subordinated Notes, the ranking of those Subordinated Notes or the original maturity date of such Subordinated Notes. The Trustee shall agree to any modification of the terms and conditions of any Subordinated Notes which two Directors of the Issuer shall have certified in writing to the Trustee is permitted in

accordance with the provisions of this Condition 11(c), provided that the Trustee shall not be bound to assent to or to execute any modification to any Subordinated Note which, in the opinion of the Trustee, would have the effect of (i) changing, increasing or adding to the obligations or duties of the Trustee or (ii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed or the terms and conditions of the Subordinated Notes. The Trustee may rely absolutely on any such certificate and shall not be bound to make any further enquiries and shall have no liability to any Noteholder for so doing.

(d) *Substitution:* The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business in place of the Issuer or any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or Couponholders, subject to the provisions of the Trust Deed, to a change of the law governing the Notes, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(e) *Entitlement of the Trustee:* In connection with the exercise of its functions (including but not limited to those referred to in this Condition 11) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders, or the Noteholders or Couponholders in respect of Notes of any particular Tranche or Series, and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders or Couponholders.

## **12. Enforcement**

At any time after the Notes of any Series become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 20% in nominal amount of the Notes of such Series outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

## **13. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee and its parent, subsidiaries and affiliates are entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

## **14. Replacement of Bearer Notes, Coupons, Talons and Definitive Registered Notes**

If any Bearer Note, Coupon, Talon or Definitive Registered Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Paying Agent in Luxembourg (in the case of Bearer Notes, Coupons and Talons) or the Transfer Agent in New York City (in the case of Registered Notes) subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the taxes and expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes, Coupons, Talons or Definitive Registered Notes must be surrendered before replacements will be issued.

## **15. Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes of any Series in all respects (or in all respects except for the first payment of interest on them) so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes of any Series). References in these Conditions to the Notes of any Series include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes of such Series. Any further securities

forming a single series with the outstanding securities of any series (including the Notes of any Series) constituted under the Trust Deed or any deed supplemental to it shall be constituted under a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders of a Series and the holders of securities of other series (including the Notes of any other Series) where the Trustee so decides.

## 16. Agents

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder.

## 17. Provisions relating to Subordinated Notes

### (a) Form, Subscription in Cash

- (1) *Form*: Subordinated Notes will be issued as Registered Notes.
- (2) *Subscription in cash*: Subordinated Notes may be issued in one or more Series or Tranches, consideration for which shall be paid to the Issuer in cash at the date of issue thereof.

### (b) Status; Subordination Provisions

- (1) *Status*: Subordinated Notes constitute unsecured and subordinated obligations of the Issuer.
- (2) *Subordination*: Subordinated Notes are subordinated in right of payment to all existing and future Senior Liabilities of the Issuer in accordance with this Condition.

Subject to applicable law, and subject as otherwise specified on such Subordinated Notes (i) the rights and claims of Noteholders are and will be subordinated and accordingly subject in right of payment to prior payment in full of all principal, premium, if any, interest and any other amounts due or to become due on all Senior Liabilities upon the Issuer's bankruptcy, liquidation, moratorium of payments, insolvency or similar proceedings and (ii)(A) Subordinated Notes shall rank *pari passu* with respect to each other without any preference among themselves, (B) the rights and claims of Noteholders under the Subordinated Notes shall rank *pari passu* with the rights and claims of holders of the Parity Liabilities and (C) to the extent permitted by applicable law, the Subordinated Notes shall rank senior to the Issuer's Second Priority Liabilities.

### (c) Deferral of Interest and Principal

- (1) Any payment (of principal, interest or any other amount) on the Subordinated Notes on any Interest Payment Date, the Maturity Date or any other date, as applicable, shall not be due at that time and the Issuer will defer that payment of interest or principal or any other amount relating thereto in full if:
  - (i) the Issuer determines that it is, or if such payment would result in it being, in non-compliance with then applicable capital adequacy requirements or operational limits set out in Resolution 3,444 and/or Resolution 2,099 or its financial ratios fall below the minimum levels required by regulations generally applicable to Brazilian banks either existing at the date of the Subordination Nucleus as specified on such Subordinated Notes or subsequently promulgated or enacted by the Brazilian banking or monetary authorities or any other applicable Brazilian Governmental Authority and applying to the Issuer (the "Risk-Based Capital Requirements"); or
  - (ii) the Central Bank or any applicable Brazilian Governmental Authority determines that such payments shall not be made;
- (2) Upon the occurrence of sub-paragraph (i) above, the Issuer will defer payments of interest or principal or any other amount relating thereto in full until the date no later than the number of days specified on such Subordinated Notes after the date it is no longer in violation of the Risk-Based Capital Requirements and the payment of that interest or principal amount or other amount, or any portion thereof, would no longer cause the Issuer to violate the Risk-Based Capital Requirements.
- (3) The deferral of any payment in accordance with this Condition, subject as otherwise specified on such Subordinated Notes, will not constitute an Event of Default under the Subordinated Notes.

- (4) Deferred interest amounts will be determined on each Interest Payment Date only for the purpose of calculating the interest accruing thereafter on amounts in arrears. Such amounts in arrears will bear interest at the Subordinated Note interest rate plus the default rate as specified on such Subordinated Notes. The Issuer will use reasonable efforts to give not more than the maximum number of Relevant Business Days' notice specified on such Subordinated Notes and not less than the minimum number of Relevant Business Days' notice specified on such Subordinated Notes to the Noteholders of any interest or principal payment that will be deferred and of any date on which any amount in arrears or any additional interest on such amount will be payable. If amounts in arrears are at any time only partially payable:
- (i) all amounts in arrears will be payable before additional interest on those amounts;
  - (ii) all amounts in arrears will be payable in the order of the Interest Periods for which they accrued, and the payment of additional interest on those amounts will follow the same order; and
  - (iii) all amounts in arrears or additional interest on those amounts, as the case may be, for any Interest Period will be paid pro rata.
- (d) Redemption, Purchase and Guaranty or Insurance
- (1) *Purchases*: Subject to the prior approval of the Central Bank (in accordance with art. 9, VI and §3, of Resolution 3,444) or any other applicable Brazilian Governmental Authority, if then required, and to the conditions set forth in Resolution 3,444, the Issuer or any of its Affiliates may at any time purchase any Subordinated Notes in the open market or otherwise in any manner and at any price. Subordinated Notes so purchased, while held by or on behalf of the Issuer or any of its Affiliates, shall not entitle the holder to vote at any meetings of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders.
  - (2) *No Redemption at the Option of the Noteholders*: Subordinated Notes may not be redeemed at the option of the Noteholders.
  - (3) *No Guarantee or Insurance*: Subordinated Notes are unsecured and subordinated obligations of the Issuer and do not benefit from any guarantee or insurance issued pursuant to any insurance policy or similar structure that affects the subordination of the Subordinated Notes and/or requires or allows payments or transfers of funds to the Noteholders, directly or indirectly, by the Issuer or any Affiliate.
  - (4) *Optional Redemption for Taxation Reasons*: Subject to the approval of the Central Bank or any other applicable Brazilian Governmental Authority for such redemption (if such approval is then required), the Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 18 (which notice shall be irrevocable), at their Early Redemption Amount (together with interest accrued to the date fixed for redemption) if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 in excess of the additional amounts which would be payable in respect of deductions or withholdings made at the rate of the Original Withholding Level, if any, specified on such Subordinated Notes as a result of any change in, or amendment to, the laws or regulations of Brazil, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date in respect of the relevant Series, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days (or such other period as specified on such Subordinated Notes) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of such Subordinated Notes then due. Prior to the publication of any notice of redemption pursuant to Condition 17(d)(4) subject as otherwise specified on such Subordinated Notes, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders.

- (5) *Optional Redemption due to a Regulatory Event:* Subject to the approval of the Central Bank or any other applicable Brazilian Governmental Authority for such redemption (if such approval is then required), Subordinated Notes may be redeemed at the option of the Issuer, in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (or such other period as specified on such Subordinated Notes) to the Noteholders in accordance with Condition 18 (which notice shall be irrevocable), at their Early Redemption Amount (together with interest accrued to the date fixed for redemption) if the Issuer certifies to the Trustee immediately prior to the giving of such notice that a Regulatory Event has occurred, provided, however, that no such notice of redemption shall be given earlier than 90 days (or such other period as specified on such Subordinated Notes) prior to the earliest date on which the Regulatory Event is effective. Prior to the publication of any notice of redemption pursuant to Condition 17(d)(5), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such a redemption pursuant to Condition 17(d)(5), and setting forth in reasonable detail a statement of the facts giving rise to such right of redemption. Concurrently, the Issuer will deliver to the Trustee a written Opinion of Counsel stating, among other things, that a Regulatory Event has occurred and that all governmental approvals necessary for the Issuer to effect such redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.
- (6) *Cancellation:* All Subordinated Notes redeemed will be cancelled forthwith. Any Subordinated Notes purchased in accordance with Condition 17(d) subject as otherwise specified on such Subordinated Notes, may at the option of the Issuer, be cancelled or may be resold. Subordinated Notes which are cancelled following any redemption or purchase made in accordance with Condition 17(d) subject as otherwise specified on such Subordinated Notes may at the option of the Issuer be re-issued. Any resale or re-issue pursuant to Condition 17(d)(6) subject as otherwise specified on such Subordinated Notes shall only be made in compliance with all relevant laws, regulations and directives, including, but not limited to, Resolution 3,444.
- (e) Conflict of Provisions and Amendments
- (1) *Conflicts:* In the event of conflict between the provisions of this Condition and any other provision set forth in the Trust Deed or any other Transaction Document, the provision of this Condition shall prevail, as per art. 7, II, of Resolution 3,444 and any such conflicting provision shall be disregarded.
- (2) *Amendments:* In accordance with art. 7, III, of Resolution 3,444, the execution of any Trust Deed or supplemental Trust Deed (or any other document) to supplement, amend or revoke this Condition 17 or any other provision of the Subordinated Notes, is subject to the prior consent of the Central Bank or any other applicable Brazilian Governmental Authority, if so required.
- (f) Definitions

For the purposes of this Condition:

“*Affiliate*” (i) with respect to the Issuer, means any Person that belongs to the same financial or consolidated economic financial conglomerate; and (ii) with respect to any Person, means any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person; it being understood that for purposes of this definition, the term “control” (including the terms “controlling,” “controlled by” and “under common control with”) of a Person shall mean the possession, direct or indirect, of the power to vote 10% or more of the equity or similar voting interests of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of such interests, by contract or otherwise;

“*Common Shares*” means the Issuer’s common shares (ações ordinárias);

“*Governmental Authority*” means, as applicable, the government of Brazil, or any political subdivision thereof, whether federal, state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other person exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government over the Issuer;

“*Interest Payment Date*” means the dates in each year, as specified on the applicable Subordinated Note, adjusted in accordance with the Business Day Convention, unless the payment is deferred as described in Condition 17(c).

“*Opinion of Counsel*” means a written opinion of counsel in compliance with the requirements of Condition 17(d)(5) from any Person which may include, without limitation, counsel for the Issuer, whether or not such counsel is an employee of the Issuer, in all cases in form and substance reasonably acceptable to the Trustee;

“*Parity Liabilities*” means, with respect to the Issuer, any securities or liabilities that rank or are expected to rank pari passu with the Subordinated Notes or any other instruments that qualify as Tier 1 Capital or Tier 2 Capital, other than the Second Priority Liabilities;

“*Regulatory Event*” means, subsequent to the time that the Subordinated Notes initially qualify as Tier 2 Capital, the Central Bank or any other applicable Brazilian Governmental Authority provides written notice that the Subordinated Notes may not be included in the consolidated Tier 2 Capital of the Issuer;

“*Resolution 2,099*” means Resolution No. 2,099 of August 17, 1994 issued by the Conselho Monetário Nacional (the National Monetary Council), as amended, modified, supplemented or superseded from time to time;

“*Resolution 3,444*” means Resolution No. 3,444 of February 28, 2007 issued by the Conselho Monetário Nacional (the National Monetary Council), as amended, modified, supplemented or superseded from time to time;

“*Risk-Based Capital Requirements*” has the meaning given to it in Condition 17(c)(1)(i);

“*Second Priority Liabilities*” means the Common Shares, or any other securities, liabilities or instruments of the Issuer that rank pari passu with the Common Shares or junior to the Subordinated Notes and junior to the Parity Liabilities, in respect of return of assets upon liquidation or in respect of interest or payment of dividends or any other payments thereon;

“*Senior Liabilities*” means all claims of the Issuer’s creditors except for the Parity Liabilities and the Second Priority Liabilities;

“*Subordinated Notes*” means the Notes issued by the Issuer in accordance with this Condition and Resolution 3,444 and designated as “Subordinated Notes;”

“*Subordination Nucleus*” means the subordination nucleus drafted in accordance with Resolution 3,444, as specified on such Subordinated Notes;

“*Tier 1 Capital*” means capital (or similar instruments) qualifying as Tier 1 capital, as set forth in Resolution 3,444; and

“*Tier 2 Capital*” means capital (or similar instruments) qualifying as Tier 2 capital, as set forth in Resolution 3,444.

## 18. Notices

Notices to holders of Registered Notes will be mailed to them at their respective addresses in the Register and shall be published (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require) on the Luxembourg Stock Exchange’s website (at [www.bourse.lu](http://www.bourse.lu)). Any such notice shall be deemed to have been given on the later of the date of such publication and the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes will be valid if published in a daily newspaper having general circulation in London and (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require) in a leading newspaper having general circulation in Luxembourg or on the Luxembourg Stock Exchange’s website (at [www.bourse.lu](http://www.bourse.lu)), or if in the opinion of the Trustee any such publication is not practicable, in another leading daily English language newspaper having general circulation in Europe approved by the Trustee). It is expected that such publication will be made in the Financial Times in London and the Luxemburger Wort in Luxembourg. Notices will, if published more than once in the same manner, be deemed to have been given on the date of the first publication in both such newspapers as provided above and will, if published more than once on different dates or in a different manner, be deemed to have been given on the date of the last publication in both such newspapers as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice to the holders of Bearer Notes in accordance with this Condition 18.

## **19. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## **20. Governing Law and Jurisdiction**

(a) *Governing Law:* The Trust Deed, the Notes, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law except that the subordination provisions set forth in Condition 17(b), will be governed by, and construed in accordance with, the laws of Brazil.

(b) *Jurisdiction:* The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Coupons, the Talons or the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with the Notes, the Coupons, the Talons or the Trust Deed (“Proceedings”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(c) *Agent for Service of Process:* The Issuer has in the Trust Deed appointed an agent in England to receive service of process in any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## Form of the Notes

### General

Each Series of Notes will be issued either in bearer form or in registered form, and Notes comprising each such Series will be issued in each case in the nominal amount of a Specified Denomination (as defined in Condition 1(b)). Subordinated Notes will be issued in registered form only in accordance with the provisions of Condition 17.

### Bearer Notes

Bearer Notes of each Tranche of a Bearer Series will initially be represented by a Temporary Global Note, or by a Global Note, each without Coupons, which will be deposited with a common depository on behalf of Clearstream, Luxembourg and Euroclear on the relevant Issue Date. Interests in the Temporary Global Note will be exchanged in whole or in part for interests in a Global Note representing Bearer Notes of the relevant Tranche, not earlier than 40 days after the later of the commencement of the offering of the relevant Tranche and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership.

Each Temporary Global Note, Global Note and any Bearer Note, Talon and 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.”

The sections of the U.S. Internal Revenue Code referred to in the 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, realised on any sale, exchange or redemption of Bearer Notes or any related Coupons.

#### *Summary of Provisions Relating to Bearer Notes while in Global Form*

Each Temporary Global Note and each Global Note will contain provisions which apply to the Bearer Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

(1) *Exchange:* A Temporary Global Note is exchangeable in whole or in part for interests in the Global Note representing Bearer Notes not earlier than 40 days after the later of the commencement of the offering of the relevant Tranche and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. A Global Note is exchangeable in whole but not in part (free of charge to the holder) for definitive Bearer Notes if the Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by such holder giving notice to the Principal Paying Agent. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notice of the availability of definitive Bearer Notes in any such circumstances shall be given to the Luxembourg Stock Exchange and published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in the Luxembourg Stock Exchange’s website (at [www.bourse.lu](http://www.bourse.lu)).

On or after any Exchange Date (as defined below), the holder of the Global Note may surrender the Global Note to or to the order of the Principal Paying Agent. In exchange for the Global Note, the Issuer will deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated definitive Bearer Notes (having attached to them all Coupons and Talons in respect of interest which has not already been paid on the Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant definitive Bearer Notes.



“Exchange Date” means a day falling not less than 40 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located.

(2) *Payments:* No payments will be made on the Temporary Global Note unless exchange for an interest in the Global Note is improperly withheld or refused. Payments of principal and interest in respect of Bearer Notes represented by the Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bearer Notes, surrender of the Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Bearer Notes. Condition 7(e)(iv) and Condition 8(i)(d) will apply to definitive Bearer Notes only.

(3) *Notices:* So long as the Bearer Notes are represented by the Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders, except that so long as the Bearer Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in the Luxembourg Stock Exchange’s website (at [www.bourse.lu](http://www.bourse.lu)).

(4) *Prescription:* Claims against the Issuer in respect of principal and interest in respect of the Global Note will become prescribed unless the Global Note is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

(5) *Meetings:* The holder of the Global Note will (unless the Global Note represents only one Bearer Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each minimum Specified Denomination of Notes for which the Global Note may be exchanged.

(6) *Purchase and Cancellation:* Cancellation of any Bearer Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the nominal amount of the Global Note, and evidenced by the appropriate notation in the relevant schedule to such Global Note.

(7) *Default:* The Global Note provides that the holder may cause the Global Note to become due and payable in the circumstances described in Condition 9 by giving notice thereof to the Trustee.

(8) *Trustee’s Powers:* In considering the interests of Noteholders while the Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests as if such accountholders were the holder of the Global Note.

(9) *Call Option:* The Issuer’s call option in Condition 6(e) may be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by Condition 6(e).

(10) *Put Option:* The Noteholders’ put option in Condition 6(f) may be exercised by the holder of the Global Note giving notice to the Principal Paying Agent of the nominal amount of Bearer Notes in respect of which the option is exercised and presenting the Global Note for endorsement of exercise within the time limits specified in Condition 6(f).

## **Registered Notes**

Registered Notes of each Tranche of a Registered Series which are sold in an “offshore transaction” within the meaning of Regulation S (“Unrestricted Notes”) will initially be represented by interests in a DTC Unrestricted Global Note, without interest coupons, deposited with a custodian for, and registered in the name of a nominee of,

DTC on its Issue Date. Registered Notes of such Tranche resold pursuant to Rule 144A (“Restricted Notes”) will initially be represented by a DTC Restricted Global Note, without interest coupons, deposited with a custodian for, and registered in the name of a nominee of, DTC on its Issue Date. Any DTC Restricted Global Note and any individual definitive Restricted Notes will bear a legend applicable to purchasers who purchase the Registered Notes pursuant to Rule 144A as described under “Transfer Restrictions.” Individual definitive Registered Notes will only be available in certain limited circumstances as described under “Clearing and Settlement—Individual Definitive Registered Notes” below.

### **U.S. Dollar Equivalent**

For the purpose of calculating the U.S. dollar equivalent of the nominal amount of Notes outstanding under the Programme from time to time, the U.S. dollar equivalent of Notes denominated in another currency shall be determined, at the discretion of the Issuer, either as of the date of agreement to issue such Notes (the “Agreement Date”) or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in either case on the basis of the Exchange Rate on the relevant date of calculation. As used herein, the “Exchange Rate” means the spot rate for the sale of U.S. dollars against the purchase of such other relevant currency in the London foreign exchange market as quoted by any leading bank selected by the Issuer at its discretion on the Agreement Date or on the preceding day on which commercial banks and foreign exchange markets are open for business in London.

The U.S. dollar equivalent of any Zero Coupon Note and any other Note issued at a discount shall be calculated, in relation to the Specified Currency, in the manner specified above and with the Exchange Rate so determined to apply in respect of any other U.S. dollar equivalent determination for the same Notes and, in relation to the nominal amount, by reference to the amortisation yield formula as specified in the Conditions applicable to such Notes as of the same dates as specified in the preceding paragraph or, if no formula is so specified, the nominal amount of the Notes. The U.S. dollar equivalent of a Note issued at a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer from the relevant issue of Notes.

## Clearing and Settlement

### Book-Entry Ownership

#### *Bearer Notes*

The Issuer will make applications to Clearstream, Luxembourg and Euroclear for acceptance in their respective book-entry systems in respect of any Bearer Series of Notes. In respect of Bearer Notes, a Temporary Global Note and/or a Global Note in bearer form without coupons will be deposited with a common depository for Clearstream, Luxembourg and Euroclear. Transfers of interests in a Temporary Global Note or a Global Note will be made in accordance with the normal Euromarket debt securities operating procedures of Clearstream, Luxembourg and Euroclear.

#### *Registered Notes*

The Issuer and Deutsche Bank Trust Company Americas will make application to DTC for acceptance in its book-entry settlement system of the Unrestricted Notes and the Restricted Notes represented by each DTC Unrestricted Global Note and each DTC Restricted Global Note, respectively. Each DTC Unrestricted Global Note will have a CINS number and each DTC Restricted Global Note will have a CUSIP number. Each DTC Restricted Global Note will be subject to restrictions on transfer contained in a legend appearing on the front of such Note, as set out under "Transfer Restrictions." In certain circumstances, as described below in "Transfers of Registered Notes," transfers of interests in a DTC Restricted Global Note to a DTC Unrestricted Global Note may be made as a result of which such legend is no longer applicable.

The custodian with whom the DTC Global Notes are deposited (the "Custodian") and DTC will electronically record the nominal amount of the Unrestricted Notes and the Restricted Notes, as the case may be, held within the DTC system. Until the expiration of 40 days after the later of the commencement of the offering and the Issue Date of a Tranche of Notes, investors in Notes of such Series may hold their interests in a DTC Unrestricted Global Note only through Clearstream, Luxembourg or Euroclear. Thereafter, investors may additionally hold such interests directly through DTC, if they are participants in such system, or indirectly through organisations which are participants in DTC. Clearstream, Luxembourg and Euroclear will hold interests in a DTC Unrestricted Global Note on behalf of their accountholders through customers' securities accounts in Clearstream, Luxembourg's or Euroclear's respective names on the books of their respective depositories, which in turn will hold such interests in a DTC Unrestricted Global Note in customers' securities accounts in the depositories' names on the books of DTC. Deutsche Bank Trust Company Americas will initially act as depository for Euroclear and Deutsche Bank Trust Company Americas will initially act as depository for Clearstream, Luxembourg. Investors may hold their interests in a DTC Restricted Global Note directly through DTC if they are participants in the DTC system, or indirectly through organisations which are participants in such system.

Payments of the principal of, and interest on, each DTC Global Note registered in the name of DTC's nominee will be to or to the order of its nominee as the registered owner of such DTC Global Note. The Issuer expects that the nominee, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant DTC Global Note as shown on the records of DTC or the nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in such DTC Global Note held through such DTC 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 DTC participants. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the DTC Global Notes or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of a DTC Unrestricted Global Note and/or a DTC Restricted Global Note. Individual Definitive Registered Notes will only be available, in the case of Unrestricted Notes, in amounts specified in the applicable Pricing Supplement, and, in the case of Restricted Notes, in amounts of U.S.\$100,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)), or higher integral multiples of U.S.\$1,000, in certain limited circumstances described below.

Application will be made on behalf of the Issuer to Clearstream, Luxembourg and Euroclear for acceptance in their respective book-entry systems in respect of Registered Notes.

### **Individual Definitive Registered Notes**

Registration of title to Registered Notes in a name other than a depository or its nominee for DTC will not be permitted unless (i) DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the DTC Global Notes, or ceases to be a “clearing agency” registered under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), or is at any time no longer eligible to act as such and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (ii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of the Noteholders under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes. In such circumstances, the Issuer will cause sufficient individual Definitive Registered Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholder(s). A person having an interest in a DTC Global Note must provide the Registrar with:

- (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual Definitive Registered Notes; and
- (ii) in the case of a DTC Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Definitive Registered Notes issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notice of the availability of Definitive Registered Notes in any such circumstances shall be given to the Luxembourg Stock Exchange and published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in the Luxembourg Stock Exchange’s website (at [www.bourse.lu](http://www.bourse.lu)).

### **Transfers of Registered Notes**

Transfers of interests in DTC Global Registered Notes within DTC, Clearstream, Luxembourg and Euroclear will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a DTC 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, the ability of a person having an interest in a DTC Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Until the expiration of 40 days after the later of the commencement of the offering of a Series of Notes and the Issue Date therefore, beneficial interests in a DTC Unrestricted Global Note for such Series may be held only through Clearstream, Luxembourg or Euroclear. Transfers may be made at any time by a holder of an interest in a DTC Unrestricted Global Note to a transferee who wishes to take delivery of such interest through a DTC Restricted Global Note provided that any such transfer made on or prior to the expiration of the Distribution Compliance Period (as defined in “Subscription and Sale”) relating to the Notes represented by such DTC Unrestricted Global Note will only be made upon receipt by the Registrar or any Transfer Agent of a written certificate from the transferor of such interest to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities law of any state of the United States or any other jurisdiction. Thereafter, the Registrar will make the appropriate entries in the Register. Transfers at any time by a holder of any interest in the DTC Restricted Global Note to a transferee who takes delivery of such interest through a DTC Unrestricted Global Note will only be made upon delivery to the Registrar or any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear

or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in the relevant DTC Global Notes.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under “Transfer Restrictions,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected in DTC in accordance with DTC rules on behalf of Clearstream, Luxembourg or Euroclear, as the case may be, by its respective depository. However, such cross-market transactions will require delivery of instructions to Clearstream, Luxembourg or Euroclear, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Clearstream, Luxembourg or Euroclear, 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 beneficial interests in the relevant DTC Global Note, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg accountholders and Euroclear accountholders may not deliver instructions directly to the depositories for Clearstream, Luxembourg or Euroclear.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. However, as a result of time-zone differences, securities received in Clearstream, Luxembourg or Euroclear as a result of a transaction with a DTC participant will be credited to the relevant account at Clearstream, Luxembourg or Euroclear during the securities settlement processing day dated the business day (T+4) following the DTC settlement date. Similarly, cash received in Clearstream, Luxembourg or Euroclear as a result of a sale of securities by or through a Clearstream, Luxembourg or Euroclear accountholder to a DTC participant will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only on the business day (T+4) following the DTC settlement date. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Notes see “Transfer Restrictions.”

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of DTC Global Notes for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in DTC Global Notes are credited and only in respect of such portion of the aggregate nominal amount of the relevant DTC Global Notes as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant DTC Global Notes for exchange for individual Definitive Registered Notes (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the state of New York, a “banking organisation” under the laws of the state of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York 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 computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the DTC Global Notes among participants and accountholders 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. None of the Issuer, the Trustee or any Agent will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a DTC Global Note is lodged with DTC or the Custodian, Registered Notes represented by individual Definitive Registered Notes will not be eligible for clearing or settlement through DTC, Clearstream, Luxembourg or Euroclear.

### **Pre-issue Trades Settlement**

It is expected that delivery of Notes will be made against payment therefore on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the U.S. Securities and Exchange Commission under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until the relevant Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes who wish to trade Notes between the date of pricing and the relevant Issue Date should consult their own adviser.

### **Use of Proceeds**

The net proceeds of any issue of Notes will be used by the Issuer for its general corporate purposes or as otherwise specified in the applicable Pricing Supplement.

## Capitalisation

The following table, which contains certain figures derived from our consolidated financial statements prepared in accordance with Brazilian GAAP, shows our capitalisation as of December 31, 2012 on an actual basis.

You should read this table in conjunction with “Selected Financial Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this Offering Circular.

	<b>As of</b> <b>December 31, 2012</b> <b>(in thousands</b> <b>of R\$)</b>
<b>Current Liabilities</b>	
Deposits.....	2,610,189
Funds obtained in the open market.....	21,779
Funds from acceptance and issuances of securities.....	692,798
Interbranch accounts.....	31,865
Borrowings.....	545,801
Local onlendings from official institutions.....	257,060
Derivative financial instruments.....	16,074
Other liabilities.....	322,708
<b>Total</b> .....	<b>4,498,274</b>
<b>Long Term Liabilities</b>	
Deposits.....	2,477,099
Funds from acceptance and issuances of securities.....	1,602,057
Borrowings.....	74,217
Local onlendings from official institutions.....	113,628
Derivative financial instruments.....	31,555
Other liabilities.....	611,009
<b>Total</b> .....	<b>4,909,565</b>
<b>Equity</b> .....	<b>1,037,391</b>
<b>Total Capitalisation</b> <sup>(1)</sup> .....	<b>10,449,475</b>

*Note:—*

(1) Total capitalisation corresponds to the sum of total liabilities and total equity.



### Selected Financial Information

The summary consolidated financial information relating to our balance sheets and statements of income as of and for the years ended December 31, 2012 and 2011 has been derived from our audited consolidated financial statements, included elsewhere in this Offering Circular. Selected financial information presented below is not necessarily indicative of results of future operations and should be read jointly with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited financial statements and their respective explanatory notes.

Brazilian GAAP differs in certain significant respects from U.S. GAAP and from IFRS. Our financial statements and the consolidated financial statements contained in this Offering Circular differ from those that would be prepared based upon U.S. GAAP or IFRS.

The tables below contain financial information of our income and balance sheet statements derived from our consolidated financial statements and explanatory notes, in addition to selected ratios:

#### Consolidated Balance Sheet

	As of December 31,	
	2012	2011
	In thousands of R\$	
<b>Total Assets</b> .....		
<b>Current Assets</b> .....	<b>7,274,253</b>	<b>7,873,137</b>
Cash and cash equivalents .....	52,339	85,353
Short-term interbank investments.....	848,936	328,922
Marketable securities and derivative financial instruments.....	585,926	1,046,189
Interbank accounts.....	57,970	80,898
Credit operations .....	5,034,243	5,213,732
Other receivables.....	529,197	1,004,731
Other assets .....	165,642	113,312
<b>Long Term Receivables</b> .....	<b>3,050,662</b>	<b>2,867,479</b>
Marketable securities and derivative financial instruments.....	114,576	183,714
Credit operations .....	1,872,090	1,903,848
Other receivables.....	952,892	693,153
Other assets .....	111,104	86,764
<b>Permanent Assets</b> .....	<b>124,560</b>	<b>275,694</b>
Investments .....	1,590	1,598
Property and equipment in use .....	16,319	18,892
Deferred charges .....	1,953	4,054
Intangibles assets.....	104,698	251,150
<b>Total Assets</b> .....	<b>10,449,475</b>	<b>11,016,310</b>

## Consolidated Balance Sheet

	As of December 31,	
	2012	2011
	In thousands of R\$	
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b> .....	<b>4,498,274</b>	<b>5,862,453</b>
Deposits.....	2,610,189	3,189,576
Funds obtained in the open market.....	21,779	23,837
Funds from acceptance and issuances of securities.....	692,798	459,004
Interbranch accounts.....	31,865	79,349
Borrowings.....	545,801	930,131
Local onlendings – official institutions.....	257,060	228,211
Derivative financial instruments.....	16,074	4,276
Other liabilities.....	322,708	948,069
<b>Long Term Liabilities</b> .....	<b>4,909,565</b>	<b>4,155,771</b>
Deposits.....	2,477,099	2,563,654
Funds from acceptance and issuances of securities.....	1,602,057	858,821
Borrowings.....	74,217	28,137
Local onlendings – official institutions.....	113,628	351,453
Derivative financial instruments.....	31,555	23,927
Other liabilities.....	611,009	329,779
<b>Deferred Income</b> .....	<b>4,239</b>	<b>4,127</b>
<b>Non-controlling Interest In Subsidiaries</b> .....	<b>6</b>	<b>15</b>
<b>Equity</b> .....	<b>1,037,391</b>	<b>993,944</b>
<b>Total Liabilities and Equity</b> .....	<b>10,449,475</b>	<b>11,016,310</b>

## Consolidated Statement of Income

	For the year ended December 31,	
	2012	2011
<b>Income From Financial Intermediation</b> .....	<b>1,673,835</b>	<b>1,751,688</b>
Credit operations .....	1,349,276	1,358,930
Marketable securities transactions.....	192,925	218,322
Derivative financial instruments.....	45,355	40,326
Foreign exchange transactions .....	86,279	134,110
<b>Expenses on Financial Intermediation</b> .....	<b>(1,341,176)</b>	<b>(1,512,496)</b>
Funds obtained in the market .....	(872,441)	(946,112)
Borrowings, assignments and onlending transactions.....	(99,849)	(227,060)
Leasing operations.....	(109)	(125)
Allowance for loan losses.....	(368,777)	(339,199)
<b>Gross Profit From Financial Intermediation</b> .....	<b>332,659</b>	<b>239,192</b>
<b>Other Operating Income (Expenses)</b> .....	<b>(568,928)</b>	<b>(393,507)</b>
Income from services rendered .....	108,456	121,537
Personnel expenses.....	(269,871)	(268,818)
Other administrative expenses.....	(215,251)	(183,722)
Tax expenses .....	(67,052)	(58,760)
Other operating income .....	85,822	84,474
Other operating expenses .....	(211,032)	(88,218)
<b>Operating Result</b> .....	<b>(236,269)</b>	<b>(154,315)</b>
<b>Non-Operating Result</b> .....	<b>(9,949)</b>	<b>(2,146)</b>
<b>Loss Before Taxation and Profit Sharing</b> .....	<b>(246,218)</b>	<b>(156,461)</b>
<b>Income Tax and Social Contribution</b> .....	<b>108,290</b>	<b>72,631</b>
Provision for income tax .....	4,201	(47,694)
Provision for social contribution .....	(3,671)	(26,680)
Deferred tax assets .....	107,760	147,005
<b>Loss For the Year</b> .....	<b>(137,928)</b>	<b>(83,830)</b>

## Consolidated Selected Ratios

	As of December 31,	
	2012	2011
	(In thousands of R\$, except for percentages) <sup>(1)</sup>	
<b>Selected Consolidated Ratios</b> .....		
<b>Profitability and Efficiency</b> .....		
Net interest margin <sup>(1)</sup> .....	7.30%	5.96%
Return on the average balance of interest-earning assets <sup>(2)</sup> .....	(1.43)%	(0.86)%
Average return on interest-earning assets <sup>(3)</sup> .....	17.41%	18.05%
Return on average balance of equity <sup>(4)</sup> .....	(13.61)%	(9.24)%
Efficiency ratio <sup>(5)</sup> .....	59.90%	64.66%
<b>Liquidity</b>		
Credit operations and other credits (including guarantees and surety bonds) as a percentage of total funding (%).....	94.31%	94.71%
<b>Capital</b>		
Total equity as a percentage of total assets (%).....	9.93%	9.02%
<b>Asset Quality</b>		
Total overdue credit operations as a percentage of total credits (%).....	2.72%	2.90%

*Notes:—*

- (1) Gross profit from financial intermediation before deducting allowance for loan losses as a percentage of the average balance of interest earning-assets.
- (2) Loss for the year as a percentage of the average balance of interest-earning assets.
- (3) Income from financial intermediation as a percentage of the average balance of interest-earning assets.
- (4) Loss for the year as a percentage of the average balance of equity (based on the average of monthly equity).
- (5) Efficiency ratio is defined as the proportion, expressed in percentage form, between (a) the sum of “personnel expenses” and “other administrative expenses” and (b) the sum of “gross profit from financial intermediation before deducting allowance for loan losses” and “income from services rendered.”

## Selected Statistical Information

*The information below is based on and should be read in conjunction with our consolidated financial statements and accompanying notes included in this Offering Circular, as well as with “Presentation of Financial and Other Information,” “Summary of Financial and Other Information,” “Selected Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”*

Data regarding volume and annual average balances included in this Offering Circular for the years ended December 31, 2012 and 2011 was calculated based on each month-end balance during the relevant year contained in the tables below.

### Consolidated Average Balance Sheet and Other Financial Data

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

	<u>As of and for the year ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(in thousands of R\$, except percentages)	
<b>Averages</b>		
Average total assets .....	10,824,006	10,704,980
Average interest-earning assets <sup>(1)</sup> .....	9,615,039	9,703,105
Average interest-bearing liabilities <sup>(2)</sup> .....	9,114,229	9,103,189
Average equity .....	1,013,187	906,990
<b>Profitability and efficiency</b>		
Net interest margin <sup>(3)</sup> .....	7.30%	5.96%
Net interest spread <sup>(4)</sup> .....	500,809	599,917
Average yield on average interest-earning assets <sup>(5)</sup> .....	17.41%	18.05%
Average yield on average interest-bearing liabilities <sup>(6)</sup> .....	10.67%	12.89%
Efficiency ratio <sup>(7)</sup> .....	59.90%	64.66%

*Notes:*

- (1) Interest-earning assets are assets which generate income arising from financial intermediation.
- (2) Interest-bearing liabilities are liabilities which generate expenses arising from financial intermediation.
- (3) Gross profit from financial intermediation 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.” Please also refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Credit Operations and Allowance for Doubtful Credit Operations.”
- (4) The difference between the average yield on total interest-earning assets and the average yield on interest-bearing liabilities.
- (5) Income from financial intermediation as a percentage of average interest-earning assets.
- (6) Financial expenses before allowance for loan losses as a percentage of average interest-bearing liabilities.
- (7) Efficiency ratio is defined as the ratio, expressed as a percentage, of (a) the sum of “personnel expenses” and (b) “other administrative expenses” less depreciation and amortisation (included within other administrative expenses).

The consolidated average balances have been calculated based on the financial information prepared in accordance with Brazilian GAAP. Those average balances could differ if they were calculated based on the rules and regulations of the CVM.

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

	As of and for the year ended December 31,					
	2012			2011		
	Average Balance	Income (Expense)	Average Rate	Average Balance	Income (Expense)	Average Rate
	(in thousands of R\$, except percentages)					
<b>Interest-earning assets</b>						
Loans and other credits .....	7,372,666	1,349,276	18.30%	7,158,413	1,358,930	18.98%
Foreign exchange portfolio .....	566,005	86,279	15.24%	775,420	134,110	17.30%
Securities transactions .....	1,676,368	238,280	14.21%	1,769,272	258,648	14.62%
<b>Total interest-earning assets .....</b>	<b>9,615,039</b>	<b>1,673,835</b>	<b>17.41%</b>	<b>9,703,105</b>	<b>1,751,688</b>	<b>18.05</b>
<b>Interest-bearing liabilities</b>						
Interbank deposits .....	585,546	54,126	9.24%	616,924	74,586	12.09%
Time deposits and funds from acceptance and issuance of securities and subordinated debt .....	7,168,770	808,680	11.28%	6,457,962	862,022	13.35%
Derivative Financial Instruments .....	47,452	–	0.00%	131,968	–	0.00%
Foreign exchange portfolio .....	98,259	–	0.00%	192,629	–	0.00%
Money market funding .....	118,729	9,744	8.21%	108,401	9,629	8.88%
<b>Total funding operations .....</b>	<b>8,018,756</b>	<b>872,550</b>	<b>10.88%</b>	<b>7,507,883</b>	<b>946,237</b>	<b>12.60%</b>
<b>Total borrowings and onlendings .....</b>	<b>1,095,473</b>	<b>99,849</b>	<b>9.11%</b>	<b>1,595,306</b>	<b>227,060</b>	<b>14.23%</b>
<b>Total interest-bearing liabilities .....</b>	<b>9,114,229</b>	<b>972,399</b>	<b>10.67%</b>	<b>9,103,189</b>	<b>1,173,297</b>	<b>12.89%</b>
<b>Gross profit from financial operations (before provisions)</b>		<b>701,436</b>			<b>578,391</b>	

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

The following table allocates changes in our consolidated net interest income between changes in volume and changes in rates for the years indicated.

	As of and for the years ended December 31, 2012 and 2011		
	Increase (Decrease) Due to Changes in:		
	(in thousands of R\$)		
	Volume(1)	Rate(2)	Net change(3)
<b>Interest-earning assets</b>			
Loans and other credits .....	47,935	(57,589)	(9,654)
Foreign exchange portfolio .....	(33,233)	(14,498)	(47,831)
Securities transactions .....	(13,355)	(7,033)	(20,368)
<b>Total interest-earning assets .....</b>	<b>1,366</b>	<b>(79,219)</b>	<b>(77,853)</b>
<b>Interest-bearing liabilities funding operations</b>			
Interbank deposits .....	(3,635)	(16,825)	(20,460)
Time deposits and issuance of securities and .....	130,963	(184,825)	(53,342)
Money market funding .....	571	(465)	115
<b>Total funding operations .....</b>	<b>127,899</b>	<b>(201,586)</b>	<b>(73,687)</b>
<b>Total borrowings and repasses .....</b>	<b>(59,230)</b>	<b>(67,981)</b>	<b>(127,211)</b>
<b>Total interest-bearing liabilities</b>	<b>68,669</b>	<b>(269,567)</b>	<b>(200,898)</b>

Notes:—

- (1) Change calculated based on the change in volume times old rate.  
(2) Change calculated based on the change in rate times old volume.

## Balance Sheet Maturity

The following tables set forth our consolidated balance sheet maturity as of December 31, 2012 and 2011.

	As of December 31, 2012			
	90 days or less	91 days to 365 days	After 365 days	Total
	(in thousands of R\$)			
Short-term interbank investments.....	836,606	12,330	–	848,936
Securities and derivative financial instruments .....	424,142	150,463	125,897	700,502
Loans and other credits .....	2,627,677	3,220,856	1,975,867	7,824,400
Foreign exchange portfolio .....	177,085	272,180	–	449,265
<b>Total interest-earning assets.....</b>	<b>4,065,510</b>	<b>3,655,829</b>	<b>2,101,764</b>	<b>9,823,103</b>
Interbank deposits .....	179,836	122,203	78,295	380,334
Time deposits .....	500,882	1,705,126	2,398,803	4,604,811
Money market funding .....	21,779	–	–	21,779
Funds from acceptance and issuance of securities	207,103	485,695	1,602,057	2,294,855
Borrowings.....	118,338	427,463	74,217	620,018
Local onlendings – official institutions .....	105,258	151,802	113,628	370,688
<b>Total interest-bearing liabilities.....</b>	<b>1,133,196</b>	<b>2,892,289</b>	<b>4,267,000</b>	<b>8,292,485</b>
<b>Maturity Gap.....</b>	<b>2,932,314</b>	<b>763,540</b>	<b>(2,165,236)</b>	<b>1,530,618</b>

	As of December 31, 2011			
	90 days or less	91 days to 365 days	After 365 days	Total
	(in thousands of R\$)			
Short-term interbank investments.....	302,857	26,064	–	328,921
Securities and derivative financial instruments .....	–	362,978	866,925	1,229,903
Loans and other credits .....	3,373,191	3,194,426	2,063,800	8,212,578
Foreign exchange portfolio .....	600,700	336,767	–	937,467
<b>Total interest-earning assets.....</b>	<b>4,809,528</b>	<b>3,677,437</b>	<b>2,221,904</b>	<b>10,708,869</b>
Interbank deposits .....	233,575	294,797	25,413	553,785
Time deposits .....	1,008,621	1,474,309	2,538,240	5,021,170
Money market funding .....	23,837	–	–	23,837
Funds from acceptance and issuance of securities	354,441	104,036	859,348	1,317,825
Borrowings.....	332,716	539,851	85,702	958,269
Local onlendings – official institutions .....	44,050	184,161	351,453	579,664
<b>Total interest-bearing liabilities.....</b>	<b>1,997,240</b>	<b>2,597,154</b>	<b>3,860,156</b>	<b>8,454,550</b>
<b>Maturity Gap.....</b>	<b>2,039,192</b>	<b>1,164,890</b>	<b>(949,763)</b>	<b>2,254,319</b>

### Securities Portfolio (including Derivatives)

The following tables show our consolidated portfolio of securities and derivative financial instruments as of the dates indicated. Securities are valued according to Central Bank regulations for the classification of securities and derivative financial instruments.

	As of December 31,			
	2012	% of Total	2011	% of Total
	(in thousands of R\$, except percentages)			
Federal government securities.....	449,531	64.17%	961,461	78.17%
Corporate debt securities.....	48,165	6.88%	54,169	4.40%
Investment fund quotas.....	108,363	15.47%	165,191	13.43%
Derivative financial instruments.....	94,443	13.48%	49,082	4.00%
<b>Total securities and derivative financial instruments</b>	<b>700,502</b>	<b>100%</b>	<b>1,229,903</b>	<b>100%</b>
Securities as a percentage of total assets	6.70%		11.16%	

### Securities Portfolio by Currency

The following table presents our securities portfolio by currency as of the dates indicated.

	As of December 31,	
	2012	2011
Denominated in R\$.....	692,537	1,222,696
Denominated in U.S. dollars.....	7,965	7,207
<b>Total securities and derivative financial instruments</b>	<b>700,502</b>	<b>1,229,903</b>
Securities as a percentage of total assets	6.70 %	11.16%

### Breakdown and Maturity of Securities and Derivative Financial Instruments

The following tables present the consolidated maturity distribution as of December 31, 2012 and 2011 for our portfolio of securities and derivative financial instruments.

	As of December 31, 2012				
	Balance	90 days or less	91 days to 365 days	After 365 days	Total
	(in thousands of R\$)				
Federal government securities.....	449,531	400,716	–	48,815	449,531
Corporate debt securities.....	48,165	9,269	27,575	11,322	48,165
Investment fund quotas.....	108,363	22	108,341	–	108,363
Derivative financial instruments.....	94,443	14,135	20,727	59,580	94,443
<b>Total securities and derivative financial instruments</b>	<b>700,502</b>	<b>424,142</b>	<b>156,643</b>	<b>119,717</b>	<b>700,502</b>



As of December 31, 2011					
	Balance	90 days or less	91 days to 365 days	After 365 days	Total
	(in thousands of R\$)				
Federal government securities.....	961,461	592,329	232,887	136,245	961,461
Corporate debt securities.....	54,169	9,706	35,065	9,398	54,169
Investment fund quotas.....	165,191	165,191	–	–	165,191
Derivative financial instruments.....	49,082	3,017	8,056	38,009	49,082
<b>Total securities and derivative financial instruments.....</b>	<b>1,229,903</b>	<b>770,243</b>	<b>276,008</b>	<b>183,652</b>	<b>1,229,903</b>

### Credit Portfolio

The following table summarises our consolidated credit portfolio by category of economic activity of the borrowers and the percentage amounts of types of credits to total credit portfolio (including guarantees) as of the dates indicated.

	As of December 31,			
	2012		2011	
	R\$	%	R\$	%
	(in thousands of R\$, except percentages)			
<b>Private sector</b>				
Rural.....	206,437	2.5%	175,347	2.0%
Industry.....	1,800,566	21.8%	2,105,093	24.4%
Commerce.....	1,321,772	16.0%	1,396,245	16.2%
Financial Intermediaries.....	324,190	3.9%	408,258	4.7%
Other services.....	564,024	6.8%	911,259	10.6%
Individuals.....	3,668,251	44.4%	3,235,273	37.5%
Housing.....	381,510	4.6%	396,048	4.6%
<b>Total private sector.....</b>	<b>8,266,750</b>	<b>100.0%</b>	<b>8,627,523</b>	<b>100.00%</b>
<b>Public sector.....</b>	<b>1,853</b>		<b>3,894</b>	
<b>Total credit portfolio<sup>(1)</sup>.....</b>	<b>8,268,603</b>		<b>8,631,417</b>	
Allowance for loan losses.....	396,245		402,425	
<b>Total credit portfolio after allowance for loan losses.....</b>	<b>7,872,358</b>		<b>8,228,992</b>	

Notes:—

- (1) As of December 31, 2012, our total credit portfolio consisted of loans granted by us in the amount of R\$7,824,400 thousand and sureties and guarantees provided by us in the amount of R\$444,203 thousand. As of December 31, 2011, our total credit portfolio consisted of loans granted by us in the amount of R\$8,212,578 thousand and sureties and guarantees provided by us in the amount of R\$418,839 thousand.

## Credit Concentration

The following table presents the concentrations of our total credit portfolio (including guarantees) as of the dates indicated. Percentage amounts reflect our total credit portfolio.

	As of December 31,			
	2012		2011	
	R\$	%	R\$	%
	(in thousands of R\$, except percentages)			
10 largest credits .....	438,356	5.3%	419,298	4.9%
50 largest credits .....	1,187,614	14.4%	1,132,377	13.1%
100 largest credits .....	1,798,498	21.8%	1,746,184	20.3%

## Allowance for Loan Losses

The following table sets forth the activity in our consolidated allowance for doubtful loans as of the dates indicated.

	As of December 31,	
	2012	2011
	(in thousands of R\$, except percentages)	
<b>Opening balance</b> .....	<b>408,848</b>	<b>239,290</b>
Additions to provision in the period .....	<b>368,777</b>	<b>339,199</b>
Written-off from provision .....	<b>(380,048)</b>	<b>(169,641)</b>
<b>Closing balance</b> .....	<b>397,577</b>	<b>408,848</b>
Recoveries of loans written-off in prior years .....	<b>49,641</b>	<b>19,344</b>
Allowance for loan losses as a percentage of total credit portfolio .....	<b>4.8%</b>	<b>4.7%</b>

## Non-Performing Loans

The following table presents a consolidated summary of our non-performing loans, together with certain asset quality ratios as of the dates indicated. The policy for designating credits as non-performing is consistent with Central Bank policies, and represents credits classified as D through H under the Central Bank classification policies.

	As of December 31,	
	2012	2011
	(in thousands of R\$, except percentages)	
Total assets .....	10,449,486	11,016,310
Total credit portfolio <sup>(1)</sup> .....	8,268,603	8,631,417
Non-performing credits .....	621,318	498,033
Non-performing credits as a percentage of total credit portfolio .....	7.51%	5.77%
Allowance for loan losses .....	397,577	408,848
Allowance for loan losses as a percentage:		
of total credit portfolio .....	4.81%	4.74%
of non-performing credits .....	63.99%	82.09%

Notes:—

(1) As of December 31, 2012, our total credit portfolio consisted of loans granted by us in the amount of R\$7,824,400 thousand and sureties and guarantees provided by us in the amount of R\$444,203 thousand. As of December 31,

2011, our total credit portfolio consisted of loans granted by us in the amount of R\$8,212,578 thousand and sureties and guarantees provided by us in the amount of R\$418,839 thousand.

While our non-performing loans are lower than average levels for Brazilian banks, we nevertheless experienced a sharp increase in non-performing loans and our allowance for loan losses in 2011 and 2012 reflecting (i) macroeconomic factors affecting both the middle-market and consumer segments; (ii) the effect of macro-prudential measures implemented by the Central Bank and directed mainly to vehicle finance (which, although generation of vehicle finance transactions has been terminated, continues to represent a significant part of our consumer portfolio); and (iii) specific corporate clients.

Our strategy includes efforts to expand our loan portfolio, including by increasing the number of clients we serve. An increase in our loan portfolio or the number of clients we serve may result in increased default rates, which could adversely affect our financial condition and results of operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Our Financial Condition and Results of Operations—Macroeconomic Factors.”

## Funding

The following table presents our consolidated funding as of each date presented.

	As of December 31,			
	2012		2011	
	R\$	%	R\$	%
	(in thousands of R\$, except percentages)			
Demand deposits .....	102,154	1.2%	178,275	2.0%
Interbank deposits .....	380,334	4.3%	553,785	6.1%
Time deposits .....	4,604,811	52.6%	5,021,170	54.9%
Funds obtained in the open market.....	21,779	0.2%	23,837	0.3%
Funds from acceptance and issuance of securities .....	2,294,855	26.2%	1,317,825	14.5%
Borrowings.....	620,018	7.1%	958,268	10.5%
Local onlendings – official institutions .....	370,688	4.2%	579,664	6.4%
Subordinated debt.....	372,475	4.2%	480,688	5.3%
<b>Total funding<sup>(1)</sup>.....</b>	<b>8,767,114</b>	<b>100.0%</b>	<b>9,113,512</b>	<b>100.0%</b>

Notes:

(1) The figures above do not include assignments of credit operations.

## **Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion contains an analysis of our consolidated results of as of and for the years ended December 31, 2012 and 2011. The following discussion should be read in conjunction with our audited consolidated financial statements and reports and notes thereto included elsewhere in this Offering Circular. The preparation of the financial statements referred to in this section required the adoption of assumptions and estimates that affect the amounts recorded as assets, liabilities, revenue and expenses in the years and periods addressed and are subject to certain risks and uncertainties. Our future results may vary substantially from those indicated as a result of various factors that affect our business, including, among others, those mentioned in the sections “Forward-Looking Statements” and “Risk Factors,” and other factors discussed elsewhere in this Offering Circular.*

### **Overview**

See “Business—Overview” for an overview of the Bank and our operations.

### **Principal Factors Affecting Our Financial Condition and Results of Operations**

#### ***Global Financial Crisis***

Since mid-2008, the global banking industry has been severely impacted by the global financial crisis, which has contributed to significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. The crisis led to recessions and increasing unemployment in the world’s leading economies, to a reduction in investments on a global scale, a decrease in commodities prices and a sharp decline in credit availability and liquidity, as well as a general reduction in the levels of transactions in the capital markets worldwide. Although the world economy and the credit and capital markets had been recovering throughout 2010 and early 2011, the condition of the global financial markets deteriorated again during 2011, particularly as a result of the persistence of the economic crisis in Europe, particularly in Greece, Spain, Italy and Portugal, the effects on the global economy of the earthquake in Japan in March 2011 and the downgrade of the U.S. long-term sovereign credit rating by Standard & Poor’s on August 6, 2011. The effects of the global financial crisis in Brazil have been relatively moderate compared to the effects in the United States and Europe. While liquidity in the Brazilian banking industry was to some extent affected by the global financial crisis, the Central Bank enacted various measures, particularly in the fourth quarter of 2008, to ensure the availability of sufficient liquidity in the Brazilian market. See “The Brazilian Financial System and Banking Regulation.”

To date, the primary effects of the global financial crisis on the Brazilian banking system have been an increase in loan delinquency rates, which affected most banks, and reduced liquidity, which affected mainly a number of smaller and mid-sized banks.

#### ***Brazilian Economic Conditions***

As a bank in Brazil, our financial condition and results of operations are significantly affected by Brazilian macroeconomic, political and social conditions as well as the economic performance of other emerging markets.

In 2010, Brazil’s GDP grew by 7.5%. The *real* appreciated against the U.S. dollar by 4.0% in 2010, reaching R\$1.67 per U.S.\$1.00 as of December 31, 2010. Inflation, as measured by the ICPA and the IGP-M, was 5.9% and 11.3%, respectively, for the year ended December 31, 2010. The COPOM increased the SELIC rate several times during 2010 in response to inflationary pressure and as of December 31, 2010 the SELIC rate was 10.75%. In October 2010, President Dilma Vana Rousseff was elected president. Since beginning her term of office, President Dilma Rousseff has continued to implement the macroeconomic policies set forth during the former President Luís Inácio Lula da Silva’s term.

In 2011, Brazil’s GDP grew by 2.7%. The *real* depreciated against the U.S. dollar by 12.6% in 2011, reaching R\$1.88 per U.S.\$1.00 as of December 31, 2011. Inflation, as measured by the ICPA and the IGP-M, was 6.5% and

5.1%, respectively, for the year ended December 31, 2011. The Central Bank maintained its tightening monetary policy, further increasing the SELIC rate to 12.50% in July 2011. However, evaluating other factors, particularly volatility in foreign economies, which could have had a deflationary pressure on Brazil's economy, as well as in order to reinforce Brazil's domestic fiscal policy to fight inflation, the COPOM reduced the SELIC rate several times in the second half of 2011 and the SELIC rate was 11.00% as of December 31, 2011.

In 2012, Brazil's GDP grew by 0.9% and the *real* appreciated 9.41% against the U.S. dollar, reaching R\$2.05 per U.S. \$1.00 as of December 31, 2012. The COPOM continued to reduce the SELIC rate which, as of December 31, 2012, was 7.25%. Average unemployment in the principal metropolitan areas of Brazil was 5.5% as of December 31, 2012, according to the IBGE. In 2012, the inflation rate, as measured by the IPCA, was 5.8%.

The following table sets forth Brazilian GDP growth, inflation rates, interest rates, and exchange rates for each of the periods indicated below:

	<b>As of and for the year ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
GDP growth .....	0.9%	2.7%
Inflation rate (IGP-M) .....	7.8%	5.1%
Inflation rate (IPCA).....	5.8%	6.5%
CDI (accumulated in the period) <sup>(1)</sup> .....	8.4%	11.6%
TJLP (end of period) <sup>(2)</sup> .....	5.5%	6.00%
SELIC (end of period) <sup>(3)</sup> .....	7.25%	11.0%
Average SELIC <sup>(3)</sup> .....	8.5%	11.7%
Appreciation (devaluation) of the <i>real</i> against the U.S. dollar .....	9.4%	(12.6)%
Exchange rate (at year-end) of <i>reais</i> against U.S.\$1.00.....	2.05	1.88
Average exchange rate— <i>reais</i> against U.S.\$1.00 <sup>(4)</sup> .....	1.96	1.67

Sources: BNDES, Central Bank and FGV.

Notes:

(1) The CDI rate is the average interbank deposit index applicable in Brazil (accumulated annually).

(2) Represents the interest rate applied by the BNDES for long-term financings (end of period).

(3) Average rate adjusted daily in the SELIC for government securities.

(4) Average exchange rate for the last day of each month during the period.

### *Macroeconomic Factors*

#### Interest Rates

As a bank in Brazil, our income from financial intermediation and our expenses from financial intermediation are significantly affected by interest rate fluctuations, as these fluctuations affect our funding costs and revenues from lending operations. In order to control inflation, the Brazilian government on occasion has introduced a number of policies aimed at tightening credit and reducing consumption.

Generally, an increase in interest rates results in an increase in our income from loan operations due to higher spreads that we are able to charge. However, such an increase can adversely affect our results of operations and loan portfolios as a result of reduced credit demand and greater risk of default by our clients. On the other hand, a decrease in interest rates can reduce our income from loan operations due to lower spreads. This reduction in income could eventually be compensated for by an increase in loan volume, due to increased credit demand.

In addition, changes in interest rates can affect our securities portfolio, which in turn can affect our results of operations. However, the effect of these fluctuations may be limited through our use of derivative hedging instruments.

#### Inflation

Our net income can be adversely affected by higher inflation rates in Brazil, which generally increase our operating costs and reduce our operating margins if this additional inflation is not accompanied by a corresponding increase in interest rates. In addition, inflation can contribute to an increase in market volatility by causing economic uncertainties and reduced consumption, GDP growth and consumer confidence. These factors can negatively impact our results of operations.

#### Exchange Rates

The depreciation or appreciation of the *real* may adversely affect our results of operations since a portion of our assets and liabilities are denominated in or indexed to foreign currencies, primarily the U.S. dollar. Our exposure to foreign exchange rate fluctuations is reduced if we are able to maintain our portfolio of assets and liabilities with low exchange rate exposure through our use of derivative instruments, or by raising funding in the currency in which our assets are denominated, which serves as a natural hedge.

When the *real* appreciates, we generally obtain gains from our liabilities denominated in or indexed to foreign currencies and our cost of servicing these debts decreases when calculated in *reais*. Our gains are reduced by the costs derived from hedging transactions. We generally incur losses from any assets denominated in or indexed to foreign currencies because the principal and interest income on these assets, when calculated in *reais*, would decrease.

When the *real* depreciates, we generally suffer losses from our liabilities denominated in or indexed to foreign currencies, such as our short-term and long-term notes denominated in U.S. dollars, and our cost of servicing this indebtedness increases when calculated in *reais*. We attempt to minimize these losses through hedging transactions. We generally obtain gains from any assets denominated in or indexed to foreign currencies because the principal and interest income on these assets, when calculated in *reais*, would increase.

Fluctuations of the *real* can, among other factors: (i) increase or decrease our cost of cross-border funding; (ii) increase or decrease demand by our clients for loans indexed to foreign currency; (iii) increase or decrease the percentage of non-recoverable loans; and (iv) significantly impact the value of our assets and liabilities indexed to or denominated in foreign currency.

#### GDP Growth

Growth in Brazil's GDP may impact our results of operations, since such growth generally affects the overall volume of credit transactions in the country, including of our middle-market and individual clients. In 2012 and 2011, Brazil's GDP grew 0.9% and 2.7% respectively. See “—Brazilian Economic Conditions.”

Besides affecting demand for credit, the performance of the Brazilian economy may affect our clients' capacity to fulfill their loan repayment obligations on a timely basis under our loan transactions. See “—Effects of the Global Financial Crisis” and “Risk Factors— Risks Relating to Macroeconomic Factors in Brazil.”

#### *Regulatory Factors*

##### Compulsory Deposits

The Central Bank imposes compulsory deposit requirements on financial institutions to control liquidity within the Brazilian financial system. Whenever the Central Bank modifies these requirements, the balance of our interest-bearing assets and liabilities is affected, which will, in turn, affect our interest revenues and expenses.

For instance, pursuant to Circular No. 3,548 dated July 8, 2011, the amount to be deposited in an account in the Central Bank due to daily sold positions in foreign exchange is equivalent to 60% of the remaining value of the arithmetic average (in a mobile 5 day time frame) of sold positions once deducted from US\$3,000,000,000.00 (calculated in accordance with Circular No. 3,619 dated December 18, 2012). Financial institutions with respect to which the amount to be deposited is lower than R\$100,000 are exempt from such deposit.

See “Risk Factors—Risks Relating to Us and The Brazilian Banking Industry—The operations of Brazilian financial institutions are highly dependent on the prevailing regulatory environment and any change in laws and/or regulations currently in effect could adversely affect us” and “Brazilian Banking System and Industry Regulation.”

#### Capital Adequacy

As a general rule, the Central Bank requires that banks comply with regulations similar to those of the Basel II Accord regarding sufficiency or adequacy of capital, with limited exceptions. For example, the Central Bank has put in place a more stringent minimum Basel index of 11%, instead of the 8% required by the Basel II Accord, which is used for the calculation of the minimum capital we are required to maintain. As of December 31, 2012, our Basel index was 13.2%, compared to 13.6% as of December 31, 2011. The Central Bank also sets capital requirements regarding foreign currency exposure, interest-rate market risks and swap transaction risks, which are part of our required capital pursuant to the Basel II Accord rules. In addition, the Central Bank imposes restrictions on banks’ exposure to foreign currency. The exposure of Brazilian financial institutions in gold and in assets and liabilities indexed to foreign exchange rates cannot be greater than 30% of their reference equity. For more information on how the reference equity is calculated, see “Brazilian Banking System and Industry Regulation.”

We are currently in compliance with the applicable Basel II Accord guidelines, as set out by Central Bank.

#### Reference Equity

According to the CMN’s rules, the minimum equity adequacy ratio required of banks in Brazil is 11.0%, which represents the relationship between total capital and risk-weighted assets. Our equity adequacy ratio was 13.2% as of December 31, 2012 and 13.6% as of December 31, 2011, calculated pursuant to Basel II Accord criteria as set out by the Central Bank.

Pursuant to Resolution No. 2,099, dated August 17, 1994 (“Resolution No. 2,099”), the CMN requires banks to maintain a level of adjusted equity that is compatible with the amount of their risk-weighted assets. The table below sets forth this calculation for the year ended December 31, 2012:

	<b>As of December 31, 2012</b>
	<b>(in R\$, except percentages)</b>
Weighted risk (PEPR) .....	916,573,046
Interest rate variation risk (PJUR) .....	93,881,000
Risk of changes in stock prices (PACS) .....	2,940,000
Operational risk (POPR) .....	21,821,779
Held to maturity operations risk (RBAN) .....	34,681,428
Required reference equity (PRE) .....	1,035,215,825
<b>Reference equity (PR) .....</b>	<b>1,245,739,606</b>
<b>Adjusted equity – Tier I .....</b>	<b>1,006,246,081</b>
Subordinated debt – 40% .....	174,741,707
Subordinated debt – 0% .....	45,576,408
Additional net equity for pre swap currency exchange risk .....	19,175,411
<b>Reference equity – Tier 2 .....</b>	<b>239,493,525</b>
Basel II ratio .....	13.2%

On October 30, 2007, we issued a subordinated debt in the amount of R\$19.2 million, with a maturity date of October 30, 2012.

On October 2009 we updated our medium-term note programme to allow us to issue subordinated notes in addition to senior notes and, on November 6, 2009, issued subordinated notes, which were subsequently approved by the Central Bank to qualify as Tier 2 capital, in the amount of U.S.\$110 million and maturity in November 2016.

On February 22, 2010, we entered into a loan agreement with Deutsche Investitions- und Entwicklungsgesellschaft mbH (“DEG”), pursuant to which we borrowed subordinated debt in the amount of U.S.\$25 million with semi-annual interest payments and principal due at maturity in February 2016 (the “DEG indebtedness”).

On October 28, 2011 we issued US\$22 million in subordinated notes that were fully subscribed by a private investor. The maturity will be in 2021.

#### Changes in Tax Regulation

The Brazilian government regularly implements changes to tax, social security and other laws and tax assessment regimes that affect the Issuer and the Issuer’s customers. These changes include changes in applicable assessment rates and, occasionally, enactment of temporary taxes, the proceeds of which may be earmarked for designated governmental programmes. Some of these measures may result in increases in the Issuer’s tax payments, which could adversely impact the Issuer’s profitability and the Issuer’s ability to conduct certain business operations. There can be no assurance that the Issuer will be able to maintain the Issuer’s historic profitability levels following any material increases in Brazilian taxes applicable to the Issuer and the Issuer’s operations. In addition, changes in tax regulations have previously, and could in the future, produce uncertainty in the Brazilian financial system, increase funding costs and contribute to an increase in its non-performing credit portfolio. The Issuer has not, and cannot, quantify the effects of any changes in tax regulations that may be implemented by the Brazilian government in the future. There can be no assurance that any future changes in tax regulations will not have an adverse effect on the results of the Issuer’s operations. See “Brazilian Banking System and Industry Regulation—Taxation of Financial Transactions.”

#### *Factors Related to the Bank*

##### Major review of our strategy in 2012

Following a major review of our strategy in 2012, we decided to discontinue our operations in vehicle finance and payroll lending and grow our corporate credit operations. We discontinued our operations in vehicle finance and payroll lending because, among other factors, of their low margins in payroll deductible lending and higher risks in vehicle financing, including default risk, associated with them. We will continue to operate with selected products in the retail credit segment, with a view to increasing profitability. See “Business—Strategy” for more information on our revised business strategy.

These changes have impacted our results of operation for 2012 and are expected to continue to have an impact in subsequent periods as we continue to implement our revised business strategy.

##### Ability to Generate Loan Operations

Our revenue from loan operations varies according to our ability to generate new loans. This revenue can also be affected by fluctuations in interest rates, spreads, and exchange rates, as well as by changes in the regulatory environment affecting lending operations. Our income from financial intermediation is also affected by the performance of our securities portfolio. We purchase Brazilian government bonds and other securities primarily in order to diversify our asset portfolio and obtain gains from trading these securities.

##### Loan Defaults

An increase in customer defaults in our loan portfolio can result in reduced revenue from our loan operations, which can adversely affect our business, financial condition and results of operations. We comply with Central Bank regulations regarding the write-off of overdue loans, where operations classified as level H (100% provision) remain classified as such for a minimum period of six months and are then written-off against the existing provision and



monitored for five years in off-balance sheet accounts. Refinanced transactions are maintained at least at the same level as which they were classified at the time of renegotiation. Refinanced transactions which had been written-off against the provision, and which were in off-balance sheet accounts, are classified as level H, with any income derived from the refinancing only recognised as revenue when effectively received. The allowance for doubtful loans, considered sufficient by our management to cover probable losses, meets the minimum requirements established by CMN Resolution No. 2,682 of December 22, 1999 (“Resolution No. 2,682”).

#### Ability to Monitor Spreads and Guarantees and Maintain the Risk-Return Rate

The spread levels we charge our clients are proportionate to our assessment of their credit risks and debt guarantees. At times of high market liquidity and fierce competition, spreads may be lower than those required to compensate the risks assumed.

#### **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) require 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 the 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 consolidation procedures and critical accounting practices.

#### *Securities and Derivative Financial Instruments*

Under Central Bank Circular No. 3,068 of November 8, 2001, our securities are classified into three categories: “trading securities,” “securities available for sale” and “securities held to maturity.” Securities classified as “trading securities” are valued at their market value; with the adjustments to market value included in an appropriate income or expense account for the period. Securities classified as “securities available for sale” are valued at their market value; with the adjustments to market value included in an appropriate account in 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 valued 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, derivative financial instruments are valued and recorded at market value and classified as either hedge or non-hedge. Hedge instruments are classified as: (i) “market risk hedge” or (ii) “cashflow hedge.” The criteria for recording 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 recorded 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 recorded and offset in a special account in equity, and any ineffectiveness is recorded 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 valued and recorded in compliance with the intrinsic contracted terms and are not recorded at market value. With the advent of the changes introduced by Central Bank Circular Letter No. 3,150 of October 13, 2004, this treatment is also given to derivative instruments traded in association with fund raising operations or fund investments, and market value may be disregarded under the terms therein specified.

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

We regularly evaluate the quality of our credit 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. 2,682/99, which requires us to periodically analyse our credit 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 loan 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 loan 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. 2,682/99, is adequate to cover probable losses on our credit portfolio. See note 9 to our consolidated financial statements included elsewhere in this Offering Circular.

Our allowance for loan losses increased by 8.7% from R\$339.2 million for the year ended December 31, 2011 to R\$368.8 million for the year ended December 31, 2012. The increase reflected continued weakness in the consumer segment, particularly in relation to vehicle finance transactions.

Our percentage of non-performing loans to the total credit portfolio increased in 2012 due to the substantial growth of our retail operations. Immediately following the onset of the global financial crisis, we experienced a further increase in the percentage of non-performing loans to the total credit portfolio, which reached a peak default rate on our loans more than 90 days overdue of 4.3% in the first quarter in 2009.

Because of the recent substantial growth of our credit portfolio, in particular of our retail portfolio which characteristically suffers from higher rates of default, the delinquency rates and percentage of non-performing loans to total credits may not be representative of, or comparable to, ratios of a seasoned credit portfolio. The actual delinquency rates of our credit portfolio and percentage of non-performing loans to the total credits could be different than the current ratios presented in this document as the portfolio becomes seasoned and some of our more recently originated loans become due.

#### *Contingencies and Legal Obligations*

We carry out recognition, measurement and disclosure of contingent assets and liabilities in accordance with the criteria defined in CVM Determination 594/09, which came into effect on January 1, 2010, CMN resolution No. 3,823 and Circular Letter No. 3,429.

- **Contingent assets:** We do not recognise contingent assets in our accounting records unless they relate to judicial decisions where we classify the outcome as “practically certain” with no possibility of appeal (based on the advice of our legal counsel). We disclose assets with chances of success classified as “probable” in a note to the financial statements;
- **Contingent liabilities:** We record 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 positions, results of operation and future cash flows; and
- **Legal obligations:** We record provisions on the balance sheet, regardless of the probabilities of success of the lawsuit.

#### *Income Tax and Social Contribution*

Our provision for income tax and social contribution 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 realisation of the particular assets.

We frequently re-evaluate our bases for the calculation of these tax credits. If these estimates and assumptions change in the future, we can be required to register provisions for the devaluation of our tax credits, which would result in an additional tax expense in our consolidated 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 01, 2008, in each case on adjusted accounting profit, in accordance with current legislation.

Deferred tax assets calculated on income tax and social contribution losses and temporary additions are recorded in “Other receivables – Sundry.”

Tax credits on temporary additions are realized upon the use or reversal of the corresponding provisions in respect to which they were recorded. Deferred tax assets on income tax and social contribution tax losses are realized according to the generation of taxable income.

Deferred income tax and social contribution liabilities calculated on temporary differences are recorded under “Other liabilities – Tax and social security.”

### **Description of Principal Income Statement Line Items**

Our consolidated income and expenses from financial intermediation are directly affected by the variation in the SELIC rate, as applied to the average volume of credit transactions.

Results of operations with respect to securities transactions, derivative financial instruments, expenses related to money market funding and results of operations for foreign exchange are shown separately on the income statement. Therefore, these items should be analysed together, as margins in foreign exchange transactions are not significant as compared to the investment and funding volumes of the other items.

#### *Income from Financial Intermediation*

Income from financial intermediation is composed of the following main sources:

##### **Credit Operations**

Income from credit operations is derived from interest and charges relating to loans and other financing. Our principal corporate credit activities include the following: (i) Working Capital and Lines of Credit; (ii) onlendings pursuant to Resolution 2,770; (iii) Foreign Currency Financing; (iv) Exchange Contract Advances (“ACC”) and Advances on Negotiable Foreign Exchange Instruments Delivered (“ACE”); (v) Import Financing (FINIMP); (vi) Export Pre-payments; and (vii) provision of guarantees. For more information relating to these operations, see “Business—Our Business Activities—Corporate Lending.”

##### **Marketable Securities Transactions**

Income from marketable securities transactions primarily includes: (i) income from private and public sector securities transactions; (ii) the marking of securities to market value; and (iii) income from the sale of securities. This income was principally generated by interbank liquidity transactions in the open market, linked to federal government securities, and transactions in government securities.

In 2009 and 2010, we actively decreased our trading volume in public securities in line with our strategy of concentrating on our principal lines of business. As a result, in February 2010 we ceased to be a primary dealer in

public securities for the Central Bank. The main cost of financing from such securities is set forth in “Expenses from Financial Operations—Money Market Funding” below.

#### Derivative Financial Instruments

Income from derivative financial instruments is composed of gains and losses upon the liquidation of derivative instruments, as well as adjustments to the market value of the derivatives in our portfolio at the balance sheet date.

#### Trade Finance and Foreign Exchange Transactions

Income from foreign exchange transactions includes gains and losses resulting from our foreign currency-denominated asset and liability positions, as well as commissions earned from buying and selling foreign currency from/to our clients.

#### *Expenses from Financial Intermediation*

Expenses from financial intermediation are composed of the following main sources:

##### Money Market Funding

Our expenses from financial operations result primarily from our domestic funding operations, consisting of time deposits and interbank deposits and from our international funding operations, consisting of our issuance of securities.

##### Assignment and onlending transactions

Assignment and onlending transactions include funds raised abroad through specific credit lines raised abroad. Expenses associated with our assignment and onlending transactions include interest due in connection with these transactions and the effect of foreign exchange variations from international transactions.

##### Allowance for Loan Losses

Allowance for losses on loan losses reflects provisions made in the relevant period in respect of loan losses. For a detailed description, please refer to “—Critical Accounting Policies—Loans and Allowance for Loans Losses.”

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

Other operating income (expenses) includes the following main items:

##### *Income from Services Rendered*

Income from services rendered mainly includes commissions for guaranties and sureties extended, portfolio management fees, commissions for placement of securities, brokerage fees and other services provided.

##### *Banking Charges*

Banking charges income consist of fees charged on consumer financing operations pursuant to the standardised table for priority services and a basic standardised tariff package (*Custo Efetivo Total* or “CET”) introduced by Circular No. 3,371 of December 6, 2007.

##### *Personnel Expenses*

Personnel expenses consist of payroll and payroll-related charges relating to our employees. In the last two years, due to acquisitions and the growth of our operations, our personnel expenses have increased significantly. All of our employees participate in our profit sharing plan.

### *Other Administrative Expenses*

The principal components of other administrative expenses include payments made to third parties for technical support and other services, communications, data processing, amortisation and financial systems expenses. In the last two years, due to acquisitions and the growth of our operations, our administrative expenses have increased significantly.

### *Tax Expenses*

We are subject to taxes and contributions such as federal taxes PIS, COFINS, IRPJ and CSLL, and state and municipal taxes, such as IPTU and ISS.

For further information, see “Brazilian Banking System and Industry Regulation—Taxation of Financial Transactions.”

### *Other Operating Income*

Other operating income consists primarily of income from assignment of credit operations, monetary correction of judicial deposits and correction of taxes to compensate.

### *Other Operating Expenses*

Other operating expenses consist primarily of expenses incurred in connection with provisions for contingent liabilities and legal indemnity costs.

### **Non-Operating Income (Expenses)**

Our non-operating income (expenses) is composed principally of gains and losses upon the disposition of third party assets and allowances made for potential losses in respect of assets of this type.

### **Income Tax and Social Contribution**

Income tax and social contribution expenses are calculated based on an accrual basis at prevailing tax rates on the accounting results in the assessment period. The income tax rate is 25% of our taxable income, while the social contribution rate is 15% of taxable income. Deferred income and social contribution taxes are computed based on temporary differences and on tax losses and recorded based on the expected periods of realisation of the underlying assets.

### **Profit Sharing**

Profit sharing refers to expenses under our Profit Sharing Programme – PPR (*Pagamento de Participação sobre o Resultado*) established by means of the collective bargaining agreement between us and the union representing our employees.

## Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

The following table sets forth consolidated financial information for the years ended December 31, 2012 and 2011.

	Year ended December 31,		% Change
	2012	2011	
	(in thousands of R\$)		
<b>Consolidated Statement of Income</b>			
Income from financial intermediation .....	1,673,835	1,751,688	(4.4)%
Expenses from financial intermediation.....	(1,341,176)	(1,512,496)	(11.3)%
Gross profit from financial intermediation .....	332,659	239,192	39.1%
Other operating income (expenses) .....	(568,928)	(393,507)	44.6%
Operating result.....	(236,269)	(154,315)	53.1%
Non-operating result(expenses) .....	(9,949)	(2,146)	363.6%
Income before income tax and social contribution and profit sharing .....	(246,218)	(156,461)	57.4%
Income tax and social contribution.....	108,290	72,631	49.1%
<b>Consolidated Loss for the year .....</b>	<b>(137,928)</b>	<b>(83,830)</b>	<b>64.5%</b>

The following table sets forth the main sources of our consolidated income from financial operations.

	Year ended December 31,	
	2012	2011
	(in thousands of R\$)	
Credit operations.....	1,349,276	1,358,930
Marketable Securities transactions .....	192,925	218,322
Derivative financial instruments.....	45,355	40,326
Foreign exchange transactions.....	86,279	134,110
Income from financial intermediation .....	<b>1,673,835</b>	<b>1,751,688</b>

Income from financial intermediation decreased by 4.4% from R\$1,751.7 million for the year ended December 31, 2011 to R\$1,673.8 million for the year ended December 31, 2012. This increase was mainly due to the combination of factors set forth below.

### *Credit Operations*

Our income from credit operations decreased by 0.7% from R\$1,358.9 million for the year ended December 31, 2011 to R\$1,349.3 million for the year ended December 31, 2012, as explained below.

### Corporate Loans

Our income from corporate loans decreased by 19.6% from R\$683.2 million for the year ended December 31, 2011 to R\$546.9 million for the year ended December 31, 2012. This decreased was mainly due to a 18.7% decrease in the balance of working capital and guaranteed account products portfolios.

### Retail Operations

Our income from retail operations is composed mainly of credit operations generated by us, but also includes the acquisition of retail credit portfolios from third parties. Our income from retail operations increased by 18.7% from R\$675.8 million for the year ended December 31, 2011 to R\$802.4 million for the year ended December 31, 2012.

This increase was mainly due to the increase in the vehicle financing portfolio prior to our decision to discontinue our operations in vehicle finance in December 2012.

#### *Marketable Securities Transactions*

Income from securities transactions decreased by 11.6% from R\$218.3 million for the year ended December 31, 2011 to R\$192.9 million for the year ended December 31, 2012. This decrease was mainly due to the 5.3% decrease in the average volume of securities transactions (excluding derivative financial instruments) from R\$1,769.3 million in 2011 to R\$1,676.4 million in 2012, reflecting our continuing emphasis on the development of our core credit operations.

#### *Income from Derivative Financial Instruments*

Net derivative income increased by 12.5% from R\$40.3 million for the year ended December 31, 2011 to R\$45.4 million for the year ended December 31, 2012. These results should be analysed together with the variations in our other income statement line items, as our results from derivatives are substantially offset by the results of such other line items, mainly results from transactions affected by foreign exchange rates recorded under “foreign exchange income.”

#### *Foreign Exchange Income*

Income from foreign exchange transactions decreased by 35.7% from R\$134.1 million for the year ended December 31, 2011 to R\$86.3 million for the year ended December 31, 2012. The decrease mainly reflected a decrease of 27.0% in the average balance of our foreign exchange portfolio in 2012 compared to 2011.

#### *Expenses from Financial Intermediation*

The following table sets forth the components of our consolidated expenses from financial operations for the year ended December 31, 2012 and 2011:

	<b>Year ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands of R\$)</b>	
Funds obtained in the market.....	(872,441)	(946,112)
Borrowings, assignment and onlending transactions .....	(99,849)	(227,060)
Leasing operations.....	(109)	(125)
Allowance for loan losses .....	(368,777)	(339,199)
<b>Expenses from financial intermediation .....</b>	<b>(1,341,176)</b>	<b>(1,512,496)</b>

Expenses from financial operations decreased by 11.3% from R\$1,512.5 million for the year ended December 31, 2011 to R\$1,341.2 million for the year ended December 31, 2012, principally as a result of the combination of factors described below.

#### *Funds obtained in the market*

Our expenses from funding intermediation decreased by 7.8% from R\$946.1 million for the year ended December 31, 2011 to R\$872.4 million for the year ended December 31, 2012, mainly due to the factors described below.

Our interest expense in respect of interbank deposits decreased by 27.5% from R\$74.6 million for the year ended December 31, 2011 to R\$54.1 million for the year ended December 31, 2012. This decrease was due to the 24.0% decrease in the average volume of our interbank deposit portfolio and a decrease in the average rate paid on interbank deposits from 12.1% in 2011 to 9.2% in 2012.

Our expenses from time deposits and funds from acceptance and issuance of securities, including contributions to the Credit Guarantee Fund (*Fundo Garantidor de Crédito*, or “FGC”), decreased by 6.2% from R\$862.0 million for the year ended December 31, 2011 to R\$808.7 million for the year ended December 31, 2012. We benefited from a significant decrease in average interest rates on such funding from 13.4% in 2011 to 11.3% in 2012 which was only partially offset by (i) a foreign exchange loss on the significant volume of securities denominated in U.S. dollars and (ii) a 11.0% increase in the average volume of our time deposits and funds from acceptance and issuance of securities from 2011 to 2012.

Our expenses from money market funding increased by 1.0% from R\$9.6 million for the year ended December 31, 2011 to R\$9.7 million for the year ended December 31, 2012. This increase was due to 9.5% increase in the average volume of our money market funding which was only partially offset by lower average interest rates.

#### *Borrowings, Assignment and onlending transactions*

Our expenses from assignment and onlending transactions decreased 56.0% from R\$227.1 million for the year ended December 31, 2011 to R\$99.8 million for the year ended December 31, 2012. The reduction reflected a 31.3% decrease in the average volume of our borrowings and repass financing and a decrease in the average rate paid on borrowings and repass financing from 14.2% in 2011 to 9.1% in 2012.

#### *Allowance for Loan Losses*

Our allowance for doubtful loans increased by 8.7% from R\$339.2 million for the year ended December 31, 2011 to R\$368.8 million for the year ended December 31, 2012. The increase reflected continued weakness in the consumer segment, particularly in relation to vehicle finance transactions, which were discontinued by us in December 2012 but will likely remain in our portfolio until their respective maturities.

While our non-performing loans are lower than average levels for Brazilian banks, we nevertheless experienced a sharp increase in non-performing loans and our allowance for loan losses in 2011 and 2012 reflecting (i) macroeconomic factors affecting both the middle-market and consumer segments; (ii) the effect of macro-prudential measures implemented by the Central Bank and directed mainly to vehicle finance (despite the fact that the origination of vehicle finance transactions has been terminated, such transactions continue to represent a significant part of our consumer portfolio); and (iii) specific corporate clients.

#### ***Gross Profit from Financial Intermediation***

As a result of the foregoing, our gross profit from financial intermediation increased by 39.1% from R\$239.2 million for the year ended December 31, 2011 to R\$332.7 million for the year ended December 31, 2012.

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

Our other operating income (expenses) increased by 44.6%, from an expense of R\$393.5 million for the year ended December 31, 2011 to an expense of R\$568.9 million for the year ended December 31, 2012. This increase was mainly due to the combination of factors set forth below.

#### *Income from Service Rendered*

Our income from service rendered decreased by 10.7% from R\$121.5 million for the year ended December 31, 2011 to R\$108.5 million for the year ended December 31, 2012. This decrease was primarily due to the slowdown we imposed to our wholesale operations while we assessed our then existing wholesale portfolio.

#### *Personnel Expenses*

Our personnel expenses increased by 0.4% from R\$268.8 million for the year ended December 31, 2011 to R\$269.9 million for the year ended December 31, 2012. Our average number of employees decreased by 39.8% from 1,571 in 2011 to 945 in 2012. Expenses related to the dismissal of employees offset reduced payroll costs for the year.



#### *Other Administrative Expenses*

Our other administrative expenses increased by 17.2% from R\$183.7 million for the year ended December 31, 2011 to R\$215.3 million for the year ended December 31, 2012, mainly due to the restructuring of the bank and related integration of business areas and expenses with third party services providers, such as technical assistance for credit and collection.

#### *Tax Expenses*

Our tax expenses, which comprise PIS, COFINS and ISS, among others, increased by 14.1% from R\$58.8 million for the year ended December 31, 2011 to R\$67.1 million for the year ended December 31, 2012. This increase was mainly due to the increase in the value of transactions in respect of which such taxes are payable.

#### *Other Operating Income*

Our other operating income decreased by 1.6% from R\$84.5 million for the year ended December 31, 2011 to R\$85.8 million for the year ended December 31, 2012.

#### *Other Operating Expenses*

Our other operating expenses increased by 139.2% from R\$88.2 million for the year ended December 31, 2011 to R\$211.0 million for the year ended December 31, 2012. This increase was mainly due to our deduction of amortization of goodwill derived from our vehicle financing operations, which we discontinued in December 2012.

#### ***Operating Result***

Our loss from operations increased by 53.1% from R\$154.3 million for the year ended December 31, 2011 to R\$236.3 million for the year ended December 31, 2012, as described above.

#### ***Non-Operating Result (Expenses)***

Our non-operating expenses increased by 363.6% from R\$2.1 million for the year ended December 31, 2011 to R\$9.9 million for the year ended December 31, 2012, mainly as a result of losses (or provisions for loan losses) on the sale of permanent assets and assets not for our own use.

#### ***Loss Before Taxation and Profit Sharing***

Our loss before income tax and social contribution taxes and profit sharing increased by 57.3% from R\$156.5 million for the year ended December 31, 2011 to R\$246.2 million for the year ended December 31, 2012.

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

We had a net credit in respect of income tax and social contribution of R\$108.3 million for the year ended December 31, 2012, a 49.2% increase compared to R\$72.6 million for the year ended December 31, 2011. This result was due to our higher loss before taxes and social contribution expenses.

Our net deferred tax credits increased from R\$434.8 million as of December 31, 2011 to R\$589.0 million as of December 31, 2012, mainly due to the increase in allowances for doubtful loans and marked-to-market bonds and derivatives.

## ***Loss For the Year***

As a result of the previously discussed items, our net loss increased by 64.5% from R\$83.8 million for the year ended December 31, 2011 to R\$137.9 million for the year ended December 31, 2012.

## **Liquidity and Capital Resources**

### *Overview*

We believe that we rigorously control our liquidity risk in order to maintain liquidity levels suited to the profile of our assets and liabilities. We maintain a level of cash that we consider suitable for our lending and funding activities.

We have a finance and treasury area that focuses mainly on providing funding and liquidity by efficiently allocating resources with low funding costs.

The maturity profile of our assets and liabilities enables us to manage our funding needs in accordance with the needs of our credit operations. When comparing our uncommitted cash balances, including credit operations (excluding surety bonds, which do not require an allocation of cash to our short-term borrowings), we maintained, as of December 31, 2012, a 0.97 liquidity index. In other words, we had R\$0.97 in short-term assets for every R\$1.00 of short-term borrowings (30-day window).

We have implemented the following liquidity risk management tools:

- *Objective Cash Control.* We maintain a level of cash considered suitable for our lending and funding activities. Our asset and liability management policies are geared with reference to this level, which is monitored on a daily basis. The objective cash level is set by ALCO. ALCO meets at least once a month and defines our asset and liability strategies for upcoming periods. On December 31, 2012, our minimum liquidity reserve was approximately 80% of our net equity.
- *Liquidity Risk Control.* Our liquidity level is monitored daily by the cash control and management area, which monitors our profile of maturities until our asset and liability portfolios are exhausted. This maturity profile is presented to ALCO. ALCO considers alternatives in respect of the minimum level of cash to be maintained in order to manage the risk exposure of our assets and liabilities. We also use the capital adequacy ratio and market conditions as parameters for liquidity control and for triggering our liquidity contingency plan, as described below.
- *Liquidity Contingency Plan.* The liquidity contingency plan is a management tool that establishes the actions and measures to be taken whenever a short-term liquidity projection indicates levels that are lower than the defined minimum limit. In the case of a lack of resources and financial market crises, our liquidity contingency plan offers the following alternatives: (i) external funding (through our strategic foreign shareholder); (ii) credit assignments; (iii) funding from companies within the Vicunha Group; (iv) reduction or moratorium on lending until liquidity is restored; and (v) sale of private securities portfolio.
- *Liquidity Stress Scenarios.* In order to assess the behavior of our financial instruments given adverse scenarios, simulations are carried out allowing the liquidity risk area to forecast possible significant cash outflows. These simulations are executed on a daily basis and reported monthly in ALCO.

### *Sources of Funding*

We have access to several sources of funding in Brazil, including corporations, pension funds, investment funds and banks, among others. Our decision to choose one source of funding over another takes into account several factors, such as the clients' needs and the features of the facilities, including interest rates, terms, index fees and source.

Our principal source of funding for our lending operations are time deposits and investments represented by CDBs,

CDIs and DPGEs that we issue to individuals, legal entities and institutional investors, including pension funds, independent fund managers, banks and insurance companies. As of December 31, 2012, time deposits totaled 56.7% of our total funding.

The following table sets forth our sources of funding as of December 31, 2012 and 2011, excluding equity.

	As of December 31,			
	2012		2011	
	R\$	%	R\$	%
	(in thousands of R\$, except percentages)			
Demand deposits .....	102,143	1.2%	178,275	2.0%
Interbank deposits.....	380,334	4.3%	553,785	6.1%
Time deposits .....	4,604,811	52.6%	5,021,170	54.9%
Funds obtained in the open market	21,779	0.2%	23,837	0.3%
Funds from acceptance and issuance of securities .....	2,294,855	26.2%	1,317,825	14.5%
Borrowings .....	620,018	7.1%	958,268	10.5%
Local Onlendings – official institutions .....	370,688	4.2%	579,664	6.4%
Subordinated debt.....	372,475	4.2%	480,688	5.3%
<b>Total funding</b> .....	<b>8,767,103</b>	<b>100.0%</b>	<b>9,113,512</b>	<b>100.0%</b>

For more information on our sources of funding, see “Business—Funding Sources.”

#### *Demand Deposits*

As of December 31, 2012, our demand deposits totaled R\$102.2 million, compared to R\$178.3 million as of December 31, 2011.

#### *Interbank Deposits*

Funding from interbank deposits consists mainly of CDIs, which are certificates of deposit issued to financial institutions in the interbank market.

As of December 31, 2012, our interbank deposits totaled R\$380.3 million, compared to R\$553.8 million as of December 31, 2011.

CDI funding is common in the Brazilian financial market. If approved by our credit committee, we also purchase CDIs from selected affiliates.

#### *Time Deposits*

Our principal source of funding is time deposits, mainly consisting of CDBs and DPGEs. As of December 31, 2012, our time deposits totaled R\$4,604.8 million, compared to R\$5,021.2 million as of December 31, 2011.

We issue CDBs to individuals, legal entities and to institutional investors as a way of raising deposits denominated in local currency and ensuring liquidity. The funds provided by CDBs are used for our loan transactions to middle

market companies. We issue CDBs at fixed and floating interest rates, and also at rates, such as the IGP-M, IGP or IPCA inflation indices. There is considerable competition among banks for CDB deposits.

As of December 31, 2012, we issued time deposits held in the form of CDBs, to clients who were individuals (10.1%), non-financial companies (15.5%), financial institutions (25.1%) and qualified investors (49.3%), such as investment funds, foundations, pension funds and insurance companies.

On April 1, 2009, the CMN created DPGEs. DPGEs are deposits which have characteristics defined by Resolutions 3,692/09, 3,717/09 and 3,729/09 of the CMN, without the issuance of a certificate, with accounting rules specified under Circular-letter 3,391/09 from the Central Bank. The DPGE is guaranteed by the FGC, with a limit by investor of up to R\$20.0 million (including total principal and interest). The DPGE has been conceived for final borrowers, individuals or corporations, which normally operate with larger volumes of resources. Institutions that manage third party resources must make investments in DPGEs directly in the name of their clients. As of December 31, 2012, we had R\$2,568.7 million in DPGEs, representing 29.3% of our total funding. Our limit for DPGEs as of December 31, 2012 was R\$2.6 billion.

#### *Funds from Acceptance and Issuance of Securities*

Our funding from acceptances and issuances of securities mainly consists of notes denominated in U.S. dollars that were issued abroad under our U.S.\$1.0 billion medium-term note programme, promissory notes issued in *reais*, *Letras Financeiras* and *Letras de Crédito do Agronegócio* issued in *reais*. As of December 31, 2012, our funding from acceptances and issuances of securities in *reais* totaled R\$1,348.5 million and the equivalent of R\$946.4 million in foreign currency (100% U.S. dollar denominated).

Acting through our Cayman Islands branch, we have outstanding three series of U.S. dollar denominated senior medium-term notes bearing interest rates between 6.5% and 8.0%. We have used this funding from abroad mainly to support our loan operations, especially our retail business lines. As of December 31, 2012, the outstanding amount of these issues totaled R\$550 million.

In 2007 we raised funds abroad in *reais* totaling R\$129.8 million. This funding was provided by the IFC through an indexed promissory note denominated in *reais*, with a term of seven years, and by the Brazilian Clearing House for Custody Settlement (*Câmara de Custódia e Liquidação*, or “CETIP”), through an “A Loan” with a term of five years, with rates of 90.7% of the CDI plus 1.625% and 90.0% of CDI plus 1.5%.

#### *Borrowings*

We also borrow funds in the international market from multi-lateral institutions, export and import agencies and foreign banks, mainly to fund trade operations. As of December 31, 2012, our funding from such borrowings totaled R\$620.0 million, compared to R\$958.3 million as of December 31, 2011.

In July 2010, IFC arranged an “A/B Loan” in respect of which the “A Loan” of U.S.\$15 million with a term of four years was provided by IFC and “B Loans” of U.S.\$96 million and EUR\$20 million each with a term of two years were provided by an eleven bank syndicate. The B Loans were repaid in full at maturity in July 2012. See “Related Party Transactions.” In 2008, we entered into a bilateral loan facility with the Overseas Private Investment Corporation (“OPIC”) in the amount of U.S.\$20 million. In 2009, we agreed a U.S.\$30.0 million bilateral credit facility with the French development agency *Société de Promotion et de Participation pour la Coopération Economique* (“Proparco”) as lender with a term of ten years.

#### *Subordinated Debts*

We also raise subordinated debt in the form of securities issued in the international market, CDBs and loans. See “— Regulatory Factors— Reference Equity” for a description of our outstanding subordinated debt funding transactions.

In accordance with the eligibility requirements for subordinated debt to be treated as Tier 2 regulatory capital, payment of principal and interest is conditioned upon compliance with the operational limits determined by the Central Bank or, in the event that redemption does not comply with those limits, payment will be postponed until eligibility is achieved. Each subordinated debt transaction is subject to an approval process before it may be treated as Tier 2 capital and in the five year period preceding maturity, the proportion of the debt which may be treated as Tier 2 capital is annually reduced by 20% of the aggregate principal amount of the debt.

As of December 31, 2012, our total outstanding subordinated debt totaled R\$372.5 million in debt issued, as compared to R\$480.7 million as of December 31, 2011. Of this total, R\$220.0 million as of December 31, 2012 was eligible to be classified as Tier 2 regulatory capital.

#### *Use of Funds*

In accordance with our asset, liability and liquidity management policies, most of our investments are in loan and securities portfolios, as well as in short-term interbank investments. As of December 31, 2012 our credit portfolio represented 79.1% of our total assets (compared to 78.3% as of December 31, 2011), our securities portfolio represented 22.0% of our total assets (compared to 12.0% as of December 31, 2011) and our short-term interbank investments represented 3.6% of our total assets (compared to 5.0% as of December 31, 2011).

On December 31, 2012, the average tenor of our assets was 8.7 months and the average tenor of our liabilities was 14.2 months.

See “Risk Factors—Risks Relating to Us the Brazilian Banking Industry— The operations of Brazilian financial institutions are highly dependent on the prevailing regulatory environment and any change in laws and/or regulations currently in effect could adversely affect us.”

#### *Off-Balance Sheet Transactions*

We have not entered into any financing agreements that are not recorded in our financial statements. In addition, we do not control any company that is not consolidated or otherwise included in our financial statements, nor do we own any equity interest in any special purpose company. Guarantees and sureties provided by us to our clients are disclosed in note 26 of our financial statements.

#### *Information on Market Risks*

##### **Risk and Risk Management**

In the normal course of our operations, we are exposed to various risks inherent to banking activities. The primary goal of our risk management policies is to protect our capital. This goal is in line with the core principles behind our operating policy, which is to prioritise caution over high returns. We believe our systems and internal controls are structured appropriately based on our operations. We classify our categories of risk as market risk, liquidity risk, operating risk and credit risk.

Different levels of our management team and a series of policies and strategies are involved in the control and management of these risks. Our risk management policies are conservative and endeavour to limit our absolute losses as much as possible, without reducing the efficiency of our operations. We constantly strive to improve our risk management practices. We have risk committees that conduct research and provide support to our management before decisions are taken. Our risk management practices seek to ensure our financial stability by adhering to best practices in our market, in accordance with prevailing banking regulations in Brazil.

##### **Market Risk**

Market risk refers to the possibility of loss due to unfavorable trends in market rates and prices that could impact our positions given the mismatches of asset and liability portfolios. Such a loss typically occurs as a result of maturity gaps and currency exposures.

We are committed to continuously improving our area of risk management as well as being up to date with international best practices. Market risk management involves observation and control of the market elements that can impact the market value of a portfolio, for example, fluctuations in interest rates and foreign exchange rates.

The key function of our market risk area is to identify, measure and report any potential risks of changes in market prices of financial instruments which can directly or indirectly affect the values of our assets and liabilities. This area is also responsible for obtaining the necessary market information for analysis and for decision making. The market risk area uses a set of controls such as Value at Risk (VaR) with a 99% confidence interval and “Crash Scenario” analysis to assess the maximum potential loss of a given portfolio in extreme scenarios. The market risk area also tests the system on a regular basis, and uses an on-line tool for monitoring accumulated losses.

Our risk management policy is conservative, and is determined by our Market Risk Committee. The Market Risk Committee is comprised of our Executive Officers and managers from research, risk, audit and treasury areas. This committee meets once a month to reassess its parameters, VaR limits and stress scenarios based on prevailing changes in the economic and market environment. As of December 31, 2012, our VaR was equivalent to 0.2% of our equity.

#### Interest Rate Fluctuation Risk

Interest rate sensitivity management is subject to our asset and liability management policy. This measure represents the sensitivity of our portfolio to fluctuations on interest rates given the mismatches of our assets and liabilities. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap.

Our interest rate sensitivity strategy takes into account:

- the balance between expected rates of return and risk;
- our overall exposure to interest rate risk; and
- our liquidity and capital requirements.

We monitor any potential mismatches between interest-earning assets and interest-bearing liabilities on a daily basis and manage them within established limits.

#### Foreign Exchange Rate Fluctuation Risks

Most of our transactions are denominated in *reais*, however, we have traditionally held funds, liabilities and derivatives denominated in foreign currency, mainly U.S. dollars. Our policy is to avoid material foreign exchange rate mismatches. The Central Bank also imposes restrictions on banks' exposure to foreign currencies. Pursuant to CMN Resolution No. 3,488, the total consolidated exposure of a financial institution in foreign currencies and gold cannot exceed 30% of its reference equity. Our net foreign currency exposure was 1.1% of our reference assets as of December 31, 2012, which was below the 2.0% exemption for allocated capital and the 30.0% maximum foreign exchange exposure level permitted by the Central Bank.

#### Credit Risk

All applications submitted, whether for corporate or retail loan transactions, have their risk assessed according to internal procedures established for each segment.

Assessments of corporate credit operations focus on the specific company's cash-generating capacity and on the risk factors associated with the transaction. This assessment involves a technical analysis of the customer's ability to honour its commitments and includes on-site visits by our employees. The results and conclusions of this analysis are presented to our relevant committees and may involve all executive levels, depending on the degree of complexity of the decisions being made. Our decisions are not made solely based on the level of collateral offered, as such levels are regarded as ancillary to the risk incurred. In addition, we rigorously manage the collateral over

which we take security, using proprietary systems and the expertise of professionals with considerable experience in the business.

In granting loans our basic requirement is that borrowers have adequate cash flow to conduct their normal business operations and that they have the ability to access lines of credit. We have credit risk controls that allow us to monitor the quality of our portfolio, anticipating possible problems our clients may encounter.

Retail loan transactions, which are submitted and approved over the internet through our website, are analysed by our automated system in accordance with the fixed parameters of our retail loan model. Our systems are carefully designed to handle loan applications according to various internal filters based on historical statistical information, credit policies, scoring tools, and fraud prevention tools. Our systems are capable of performing risk assessments by region, segment and by point of sale. Our systems include a thorough series of required approvals, where certain applications are earmarked for manual credit analysis and evaluated according to the established internal guidelines. We believe that our controls and processes allow us to assess the credit quality of our customers in a secure and efficient manner. Our processes and systems also help to ensure that transactions are properly executed, thus contributing to the efficiency of our internal controls.

In addition, in our global and credit committees periodically assess our credit portfolio, monitoring credit limits, defaults, risk exposure and group and sector concentration, and performing stress and benchmark analyses.

#### Liquidity Risk Management and Control

We rigorously control our liquidity risk in order to maintain liquidity levels suited to our asset and liability profiles. We have implemented the following liquidity risk management tools:

- *Objective Cash Control.* We maintain a level of cash considered suitable for our lending and funding activities. Our asset and liability management policies are geared with reference to this level, which is monitored on a daily basis. The objective cash level is set by ALCO. ALCO meets at least once a month and defines our asset and liability strategies for upcoming periods. On December 31, 2012, our minimum liquidity reserve was approximately 80% of our net equity.
- *Liquidity Risk Control.* Our liquidity level is monitored daily by the cash control and management area, which monitors our profile of maturities until our asset and liability portfolios are exhausted. This maturity profile is presented to ALCO. ALCO considers alternatives in respect of the minimum level of cash to be maintained in order to manage the risk exposure of our assets and liabilities. We also use the capital adequacy ratio and market conditions as parameters for liquidity control and for triggering our liquidity contingency plan, as described below.
- *Liquidity Contingency Plan.* The liquidity contingency plan is a management tool that establishes the actions and measures to be taken whenever a short-term liquidity projection indicates levels that are lower than the defined minimum limit. In the case of a lack of resources and financial market crises, our liquidity contingency plan offers the following alternatives: (i) external funding (through our strategic foreign shareholder); (ii) credit assignments; (iii) funding from companies within the Vicunha Group; (iv) reduction or moratorium on lending until liquidity is restored; and (v) sale of private securities portfolio.
- *Liquidity Stress Scenarios.* In order to assess the behaviour of our financial instruments under adverse scenarios, simulations are carried out in order to allow the liquidity risk area to forecast possible significant cash outflows. These simulations are carried out on a daily basis and reported monthly in ALCO.

#### Operational Risk

Operational risk consists of risks due to flaws, deficiencies or inadequacy of internal processes, personnel and systems, or external events. This includes the legal risk related to the inadequacy or deficiency in contracts entered into by the Bank.

In order to mitigate this type of risk and to comply with global market practices and Brazilian financial market regulations, we established an internal control structure that helps ensure consistent updating in the mapping of risks and controls, as well as the capture of information related to any flaw or loss in connection with an operational risk. This structure is composed of employees comprising the operational risk compliance area and also of compliance agents located in each area of the Bank. Such a structure helps to foster a culture of compliance and risk control throughout the Bank.

This structure also includes an internal control system whereby periodic evaluations are performed on our activities and processes. This system identifies inherent risks and evaluates the effectiveness of the controls being used. It also implements action plans to mitigate any risks identified and improve controls. Through ongoing management and control work, the operational risk management structure is taking the necessary measures to meet the recommendations of the Basel II Accord as set out by the Central Bank. We currently employ the “Alternative Standardised” model for the allocation of capital, and our goal is to qualify for the “Advanced” capital allocation model, in order to optimise capital allocation.

#### Capital Management Structure

We have implemented a capital management structure as required by CMN Resolution no. 3,998, dated June 30, 2011. This structure is comprised of an internal control system which constantly evaluates the reference equity and the economic capital of the Bank as we implement our business strategy. This internal control system also evaluates the main risks to which we are exposed and simulates severe stress scenarios which may affect us.



## **Brazilian Financial System and Banking Regulation**

### **General**

The basic structure of the National Financial System (*Sistema Financeiro Nacional*, or “National Financial System”) was established by Law No. 4,595, which created the CMN and granted the Central Bank, among other things, the powers to issue money and control credit.

### **Main Regulatory Agencies**

The National Financial System consists of the following regulatory and fiscal bodies:

- the CMN;
- the Central Bank;
- the CVM;
- the Superintendent of Private Insurance (“SUSEP”); and
- the Complementary Pensions Secretariat (*Secretaria de Previdência Complementar*).

The CMN and the Central Bank regulate the Brazilian banking sector. The CVM is responsible for the policies of the Brazilian securities market. Below is a summary of the main attributes and powers of each of these 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 forms of payment 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;
- regulating the constitution and operation of financial institutions;
- 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 stable development of the national economy;
- supervising Brazil’s reserves of gold and foreign exchange;
- 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 organization and operation of the Brazilian securities market.

The Minister of Finance is the Chairman of the CMN, which also consists of the Minister of Planning, Budgeting and Management and the President of the Central Bank.

## **The Central Bank**

Law No. 4,595 granted the Central Bank 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. According to Law No. 4,595, the Central Bank is also responsible for, among other activities, 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, in addition to functioning as the depository 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 reorganization of financial institutions, as well as the establishment of transfers of principal places of business or branches (whether in Brazil or abroad) and requiring the submission of periodical and annual financial statements by financial institutions.

The President of the Central Bank is appointed by the President of Brazil, subject to ratification by the Federal Senate, and holds office for an indefinite period of time.

## **The CVM**

The CVM is a government agency of the Ministry of Finance, with its headquarters in Rio de Janeiro and with jurisdiction over the whole Brazilian territory. The agency is responsible for implementing the securities policies of the CMN and is able to regulate, develop, control and supervise this market strictly in accordance with the Brazilian corporations law and securities laws.

The CVM is responsible for regulating the supervision and inspection of publicly-held companies (including with respect to disclosure criteria and penalties applicable to violations in the securities market), the trading and transactions in the securities and derivatives markets, the organization, functioning and operations of the stock exchanges and the commodities and futures exchanges and the custody of securities.

According to Law No. 10,303 of October 31, 2001 (“Law No. 10,303”) the regulation and supervision of financial and investment funds (originally regulated and supervised by the Central Bank) were transferred to the CVM.

The CVM is managed by a president and four directors, appointed, after ratification by the Federal Senate, by the President of Brazil. The term of office of CVM directors is five years, they may not be re-appointed and one fifth of the members of the board must be substituted each year.

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

Former Article 192(3) of the Brazilian Constitution, enacted in 1988, established a ceiling of 12.0% per year on bank loan interest rates. Since the enactment of the Brazilian Constitution, however, such rates have not been enforced, as the regulation of such provision was pending. Several attempts were made to regulate the limitation on bank loan interest, but none of them were implemented.

In May 2003, Constitutional Amendment 40/03 (“EC 40/03”), was passed to replace all sub sections and paragraphs of Article 192 of the Brazilian Constitution. EC 40/03 replaced these restrictive constitutional provisions with a general permission to regulate the National Financial System through specific laws. With EC 40/03, the Brazilian Congress may now vote on several bills dealing with the regulation of the National Financial System, something they would have been unable to do without the enactment of this constitutional amendment.

With the enactment of the Civil Code in 2002, unless the parties to a loan have agreed to use a different rate or another rate is provided for by law, in principle, the ceiling of the interest rate has been pegged to the interest rate set forth by the Custody and Settlement Special System (*Sistema Especial de Liquidação e Custódia*), established by the Central Bank (the “SELIC rate”). However, there is presently some uncertainty as to whether the SELIC rate or the 12.0% per annum interest rate established in the Brazilian tax code should apply and whether such ceiling should apply to financial institutions.

In addition, the Brazilian Supreme Court (*Superior Tribunal de Justiça*, or “STJ”) has been permitting the capitalization of agreed rates in bank credit certificates; rural, commercial and industrial notes (based on applicable law); and in standard loan agreements entered into from March 30, 2000 (based on the interpretation of Article 5 of the Provisional Measure (*Medida Provisória*) No. 2,170-36 of August 23, 2001, originally in Provisional Measure No. 1,963-17 of March 30, 2000), as long as interest rates are expressly provided for in these agreements. The Direct Action of Unconstitutionality No. 2,316, pending trial before the STF, claims that such provision is unconstitutional. In the event that the lawsuit succeeds, prohibition on capitalization of interest rates on a monthly basis under standard loan agreements could be restated.

Termination fees (*comissão de permanência*) are expressly forbidden for rural, commercial and industrial notes and certificates, due to the limitation on default charges established by applicable law. However, the STJ authorizes them to be charged under bank credit certificates and standard loan agreements, as long as expressly provided for and in accordance with the STJ’s Precedent No. 472, which states that the collection of termination fees, which amount cannot exceed the sum of interest and late fees set out in the agreement, and excludes the liability to pay interest, late fees and contractual penalties.

### **Financial Bills (*Letras Financeiras*)**

Provisional Measure No. 472, enacted by the Brazilian government on December 15, 2009, later converted into Law No. 12,249 on June 11, 2010, among other items, created a long-term debt security (*letra financeira*, or “LF”), enabling a new category of fund raising by Brazilian financial institutions and other institutions authorized by the Central Bank to operate. On February 25, 2010 the CMN issued Resolution No. 3,836 (CMN Resolution No. 3,836) regulating the issuance of LFs. Pursuant to CMN Resolution No. 3,836, LFs must have a minimum nominal amount of R\$300,000 and a minimum tenor of 24 months. LFs may be publicly offered in the Brazilian capital markets in accordance with applicable CVM regulations. On August 23, 2012, the CMN issued Resolution No. 4,123, which amends and consolidates rulings on the issuance of LFs by Brazilian financial institutions and is effective as from November 1, 2012.

Provisional Measure N° 608 of February 28, 2013, included certain additional requirements for the issuance of LFs. It also provides that Brazilian banks are allowed to issue subordinated LFs, which may be accounted as part of the issuer’s reference equity, subject to the conditions specified by the CMN.

### **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**

Financial institutions may not grant loans to, or guarantee the transactions of, their affiliates, except in some limited circumstances. For this purpose, the law defines an affiliate as:

- any company or individual that holds more than 10.0% 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 10.0% 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 10.0% 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 equity. Within this limit, repurchase transactions involving private securities may not exceed five times the amount of the reference 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**

Upon registering with the Central Bank, financial institutions may borrow foreign currency-denominated funds in the international markets without the prior written consent of the Central Bank, including onlending such funds in Brazil to Brazilian corporations and other financial institutions. Banks make those onlending transactions through loans payable in Brazilian currency and denominated in such foreign currency. The terms of the onlending must mirror the exact terms and conditions 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 an onlending 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**

Asset management was previously regulated by the Central Bank and the CVM. Pursuant to Law No. 10,198, of February 14, 2001, and Law No. 10,303, the regulation and supervision of both financial mutual funds and variable income funds were transferred to the CVM. On July 5, 2002, the CVM and the Central Bank entered into a memorandum of understanding under which they agreed on the general terms and conditions for the transfer of such duties to the CVM.

According to CVM Instruction No. 306 of May 5, 1999, as amended, only individuals or entities authorized 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 and a specialized technical department to perform asset management activities.

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.

Pursuant to a change introduced by the Central Bank in February 2002, fund managers are required to mark their fixed income securities to market and results in such fund's portfolio assets must be accounted for at their fair market value.

On August 18, 2004, the CVM enacted Instruction No. 409, as amended, which consolidated the rules applicable to investment funds (except in relation to certain structured investment funds, which are regulated by a distinct set of rules).

The asset management industry is also self-regulated by the Brazilian Financial and Capital Markets Entities Association (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capital*, or "ANBIMA"), which enacts additional rules and policies, primarily with respect to marketing and advertising.

### **Micro-credit Regulation**

The Brazilian government has taken several measures intended to encourage lower-income individuals to have greater access to the Brazilian Financial System. Such measures include the requirement for providing credit allocation, the simplification of banking procedures and the liberalization of credit union (*cooperativas de crédito*) regulations.

Since 2003, commercial banks, full service banks licensed to provide commercial banking services, and CEF must allocate 2.0% of their cash deposits to low-interest-rate loan transactions designated for lower-income individuals, small companies and informal entrepreneurship, following a specific methodology. According to Resolution No. 4,000 dated August 25, 2011, as amended by Resolution No. 4,153 dated October 30, 2012 ("Resolution No. 4,000"), interest rates on these loans cannot exceed 2.0% per month (or 4.0% per month in specific production finance transactions), the repayment term cannot be less than 120 days, except in specific circumstances, and the principal amount of the loan cannot exceed R\$2,000 for individuals and R\$5,000 for micro-enterprises (or R\$15,000 in specific production finance transactions).

For the purpose of compliance with Resolution No. 4,000, the CMN promulgated Resolution No. 4,050, dated January 26, 2012, which authorizes commercial banks, full service banks licensed to provide commercial banking services and CEF to grant credit loans to individuals whose monthly income is equal or inferior to ten Brazilian minimum wages; provided that such credit is clearly designated for the acquisition of goods and services to aid disabled persons.

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

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

Brazilian law prohibits financial institutions from concentrating their risk in only one person or group of related persons. The law prohibits a financial institution from extending credit to any person or group of related persons in an aggregate amount equivalent to 25.0% or more of the financial institution's reference equity. This limitation applies to any transaction involving the extension of credit, including those involving:

- loans and advances;
- guarantees; and
- the underwriting, purchase and renegotiation of securities.

#### ***Restrictions on Investment***

Financial institutions may not:

- hold, on a consolidated basis, permanent assets that exceed 50.0% of their reference 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***

All financial institutions must establish internal policies and procedures to control their:

- activities;
- financial, operational and management information systems; and
- compliance with all applicable regulations.

The board of executive officers of a financial institution is responsible for implementing an effective structure of internal controls by defining responsibilities and control procedures and establishing corresponding goals at all levels of the institution. The board of executive officers is also responsible for verifying compliance with internal procedures.

An internal audit department, which reports directly to the company's board of directors, must be responsible for monitoring the internal control system.

The financial institutions must designate a technically qualified senior manager to be responsible for compliance with all regulations regarding financial statements and auditing.

### **Independent Accountants and Audit Committee**

Resolution No. 3,198, issued by the CMN on May 27, 2004, as amended by CMN Resolution No. 3,416 dated October 24, 2006, CMN Resolution No. 3,606 dated September 11, 2008 and CMN Resolution No. 3,771 dated August 26, 2009 ("CMN Resolution No. 3,198") established certain requirements in respect of financial institutions' independent accountants and required 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 the Brazilian Institute of Independent Auditors (*Instituto dos Auditores Independentes do Brasil* or "IBRACON") 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 their independent accounting firm work at least every five consecutive years, requirement established by CMN Resolution No. 3,606, enacted on September 11, 2008 ("Resolution No. 3,606"). Former accountants can be reassigned to the audit team only after three complete years have passed since their prior service.

Pursuant to CMN Resolution No. 3,198, all financial institutions: (i) with a reference equity or a consolidated reference equity equal to or greater than R\$1 billion; (ii) managing third party assets in the amount equal to or greater than R\$1 billion; or (iii) managing third party assets and deposits in the aggregate amount equal to or greater than R\$5 billion, must create an internal audit committee within one year from indicating in its financial statements that any such parameter has been reached. The audit committee must be created pursuant to the financial institution's by-laws and must be composed of, at a minimum, three individuals, at least one of whom is an expert in accounting and auditing. The audit committee must report directly to the board of directors.

The independent accountants, in the course of their audit or review procedures, and the audit committee should notify the Central Bank of the existence or evidence of error or fraud within a maximum period of three business days from the respective identification of the same, represented by:

- non compliance with legal and regulatory norms that place the continuity of the audited entity at risk;

- fraud of any amount perpetrated by the administration of said institution;
- relevant fraud perpetrated by entity employees or third parties; or
- errors that result in significant errors in the accounting records of the entity.

### ***Audit Committee***

Audit committee members of financial institutions with shares traded on a stock exchange may not be or have been in the previous twelve months: (i) the officer of the institution or its affiliates; (ii) an employee of the institution or its affiliates; (iii) the technician responsible, officer, manager, supervisor or any other member of a management post of the team involved in auditing activities at the institution; or (iv) a member of the institution's audit council or that of its affiliates; including as a spouse, blood relative, surety, affinity and second degree relatives of such persons.

Audit committee members of open capital financial institutions are also forbidden from receiving any other kind of remuneration from the institution or its affiliates other than that relating to their respective post as a member of the audit committee. In the event an audit committee member of the institution is also a member of the board of directors of the institution or its affiliates, such member must opt for remuneration related to one of the posts.

The audit committee should report to the board of directors or officers, as applicable, and its main duties are to:

- nominate the independent accountant to be elected by the board of directors;
- supervise the work of the independent accountant;
- request that the independent accountant be substituted whenever deemed necessary;
- revise the financial records for each half year period as well as the administrative and auditing reports;
- supervise accounting and auditing, including compliance with in-house procedures and applicable regulations;
- evaluate the compliance of the financial institution's administration with the guidelines provided by the independent accountant;
- establish procedures for receiving and disclosing information in the event of any noncompliance with in-house procedures or applicable regulations;
- offer guidance to officers and directors with regard to in-house controls and procedures to be adopted; and
- meet every three months with officers and directors, independent accountants and in-house accountants to verify compliance with its guidelines.

Furthermore, Brazilian regulation also permits the creation of a single audit committee for an entire group of companies. In this particular case, the audit committee should be responsible for any and all financial institutions belonging to the same group.

### ***Financial Reporting Requirements***

Brazilian law requires financial institutions to prepare their financial statements in accordance with certain standards established by the Brazilian corporations 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 dated January 31, 2008 (“Resolution No. 3,533”) provides changes to the manner in which assigned credit rights are to be treated in our books (pursuant to CMN Resolution No. 3,809 of October 28, 2009, as amended by CMN Resolution No. 3,895 dated July 29, 2010, such changes came into effect on January 1, 2012). In accordance with Resolution No. 3,533, if the assignor substantially retains the risks and benefits of the assigned credits, such credits may not be recorded as off-balance sheet loans. This provision is applicable to: (i) assignments with repurchase commitments; (ii) assignments in which the assignor undertakes the obligation to compensate the assignee for losses; and (iii) assignments made jointly with the acquisition (or subscription) of subordinated shares in receivables investment funds (*Fundo de Investimento em Direitos Creditórios*, or “FIDCs”) by the assignor.

## **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 Accord on risk-based capital adequacy, which is currently being implemented. The banks provide the Central Bank with the information necessary for it to perform its supervisory functions, which include supervising the movements in the solvency or capital adequacy of banks.

The main principle of the Basel II Accord as implemented in Brazil is that a bank’s own resources must cover its principal risks, including credit risk, market risk and operational risk.

The requirements imposed by the Central Bank and the CMN differ from the Basel II Accord in several 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 Accord;
- require an additional amount of capital with respect to off-balance sheet interest rate and foreign currency swap operations;
- assign different risk weighting and credit conversion factors to some assets, including a risk weighting of 300.0% on deferred tax assets other than temporary differences;
- require calculation and report on the minimum capital and capital ratios on a consolidated basis;
- require banks to set aside a portion of their equity to cover operational risks as from July 1, 2008. The required portion of the equity varies from 12.0% to 15.0% of average income amounts from financial intermediation; and
- do not allow the use of external rating to calculate the minimum capital required. The Central Bank adopts a conservative approach to defining the capital demand of corporate exposures.
- Regulatory capital, or the “reference equity,” is considered for the determination of operating limits of Brazilian financial institutions and is represented by the sum of the following two tiers:
  - Tier-1 equity is represented by the net equity plus the balance of positive income accounts and of the deposit in the linked account for making up for capital deficiency, less the amounts corresponding to the balances of negative income accounts, revaluation reserves, contingency reserves, and special profit reserves concerning mandatory dividends not distributed, preferred shares issued with a redemption clause and preferred shares with cumulative dividends, certain tax credits, deferred fixed assets (less the premiums paid on acquiring the investments), and the balance of non-accounted gains or losses resulting from mark-to-market securities classified in the “securities available for sale” category and derivative financial instruments used for hedging cash flow.



- Tier-2 equity is represented by revaluation reserves, contingency reserves, special reserves of profits concerning mandatory dividends not distributed, in addition to preferred cumulative stock issued by financial institutions authorized by the Central Bank, preferred redeemable stock, subordinated debt and hybrid debt capital instruments and the balance of non-accounted gains or losses resulting from mark-to-market securities classified in the “securities available for sale” category, and derivative financial instruments used for hedging the cash flow.

The total amount of Tier-2 equity is limited to the total amount of Tier-1 equity, provided that: (i) the total amount of revaluation reserves is limited to 25.0% of the Tier 1 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 50.0% of the total amount of the Tier-1 equity; and (iii) a 20.0% reduction shall be applied to the amount of the subordinated debt and preferred redeemable stock in Tier-1 Capital annually for the five years preceding the respective maturities.

On March 1, 2013, the CMN and the Central Bank enacted four Resolutions and fifteen Circulars in order to implement in Brazil the recommendations of the Basel III (the “Basel III Regulations”). The new regulations follow the terms of Public Hearing No. 40, disclosed on February 17, 2012, although with some substantial changes. CMN Resolution No. 4,192, CMN Resolution No. 4,193 and CMN Resolution No. 4,194 will become effective by October 1, 2013 and CMN Resolution No. 4,195 will become effective by July 1, 2013. CMN Resolution No. 4,192 will repeal CMN Resolution No. 3,444, CMN Resolution No. 3,532 and CMN Resolution No. 3,655, as well as articles 2, 3 and 4 of CMN Resolution No. 3,059 and article 6 of CMN Resolution No. 2,723.

The regulatory capital will continue to be composed by two tiers. Tier 1 Capital will have a 6.0% floor (from January 1, 2015), divided into two portions: common equity or *capital principal* (corporate capital and profit reserves, among other inclusions and deductions) of at least 4.5% and additional capital or *capital complementar* (hybrid debt and capital instruments authorized by the Central Bank, with certain deductions). Tier 2 capital will be composed of subordinated debt instruments authorized by the Central Bank, with certain deductions. Current hybrid instruments and subordinated debt approved by the Central Bank as additional capital or Tier 2 Capital are expected to be maintained as such if they also comply with Basel III requirements, including the mandatory conversion clauses into equity as directed by the Basel Committee. If such instruments do not comply with Basel III requirements, there will be a yearly deduction of 10.0% on the nominal value of such instruments, starting as from October 1, 2013 (90%) and continuing on an annual basis from January 1, 2014 (80%) thereafter until 0% from January 1, 2022. As from October 1, 2013, CMN Resolution No. 4,193 will repeal CMN Resolution No. 2,772 and 3,490 and CMN Resolution 4,194 will repeal CMN Resolution No. 3,897.

One of the most important change applicable to non-common Tier 1 or Tier 2 instruments is that, to be included in additional Tier 1 or Tier 2 Capital, as the case may be, the Basel III Regulations require an instrument to have a provision that requires such instruments to either be written off or converted into common equity upon a “trigger event.” A “trigger event” includes: (1) common equity being lower than a certain percentage of the risk-weighted asset of the issuer and (2) the decision to make a public sector injection of capital, or equivalent support as determined by the relevant authority, temporary intervention of the Central Bank or determination by the Central Bank, at its discretion, to write off or convert the instrument, without which the bank would become non-viable.

The Basel III Regulations define the criteria for calculation of various elements of a financial institution’s risk-weighted assets and also address which instruments would qualify as regulatory capital, introducing the possibility that regulatory capital could include debt securities that may be written off or that are convertible into equity under certain circumstances. Specifically, under the above regulations, regulatory capital requirements would be increased in 2017 to a maximum of 13.0% of risk-weighted assets, of which from 2.5% up to 5% will only be required as a countercyclical measure, with phase-in of the modifications beginning in 2013.

Basel III will require banks to maintain: (i) a minimum common equity capital ratio of 4.5%; (ii) a minimum Tier 1 Capital ratio of 6.0% (from January 1, 2015); and (iii) a minimum regulatory capital ratio of 8% (from January 1, 2019). In addition to the minimum capital requirements, Basel III Regulations will require a “capital conservation buffer” of 2.5% (but up to 5%, if so determined by the Central Bank of Brazil). The capital conservation buffer would restrict certain discretionary distributions (such as bonus to management, dividends, reduction of capital and repurchase of shares). The three basic minimum requirements will be phased in first, beginning on October 1, 2013.

The following table presents the implementation schedule of the main changes related to capital adequacy and leverage expected with respect to Basel III Regulations:

Parameters	10/1/13	1/1/14	1/1/15	1/1/16	1/1/17	1/1/18	1/1/19
Common Equity.....	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Tier 1 .....	5.5%	5.5%	6%	6%	6%	6%	6%
Regulatory Equity .....	11%	11%	11%	9.875%	9.25%	8.625%	8%
Conservative Capital.....	-	-	-	From 0.625% to 1.25%	From 1.25% to 2.5%	From 1.875% to 3.75%	From 2.5% to 5%

The verification of regulatory capital and new minimum capital requirements will be applicable to entities belonging to a consolidated (*consolidado*) group. From January 1, 2014, the consolidated prudential (*consolidado prudencial*) group will include the financial institutions authorized to operate by the Central Bank, as well as similar entities controlled by those financial institutions and investment funds in which financial institutions retain relevant risks and benefits.

The other 15 Circulars from the Central Bank complete the regulation set forth in the Basel III Regulations and determine the procedures for calculating the risk-weighted asset (RWA). The Circulars implement several operations adjustment necessary for the new capital structure. For instance, the exposure to clearing houses, which were outside the regulatory scope, will now receive a 2% weight, in accordance with the security mechanisms offered by each institution. In addition to that, derivative transactions in the over-the-counter market will be subject to new capital requirements to face the marked to market adjustment as a result of the variation of the credit risk of the counterparty. The Circulars also improve the treatment to risk exposure to investment funds, securitization instruments, and credit derivatives (among others). They also implement certain adjustments to risk weighting in order to adequate the system to the Basel III guidelines, in particular in relation to exposures relating to certain real estate credits and large corporate credits.

### **The Role of the Public Sector in the Brazilian Banking System**

In light of the global financial crisis, on October 6, 2008, the Brazilian President enacted provisional regulations related to the use of internal reserves of foreign currencies by the Central Bank in order to provide financial institutions with liquidity by means of rediscount and loan transactions. Furthermore, on October 21, 2008, the Brazilian President enacted Provisional Measure No. 443 increasing the role of the public sector in the Brazilian banking system. These regulations authorize: (i) Banco do Brasil and CEF to directly or indirectly acquire controlling and non-controlling participations in private and public financial institutions in Brazil, including insurance companies, social welfare institutions and capitalization companies; (ii) the creation of Caixa Banco de Investimentos S.A., a wholly-owned subsidiary of CEF, with the purpose of conducting investment banking activities; and (iii) the Central Bank to carry out currency swap transactions with the central banks of other countries. Such provisional measure was converted into Law No. 11,908, enacted on March 3, 2009.

On May 24, 2012, the CMN, with Resolution No. 4,087, amended the bylaws of the FGC, such that FGC can invest up to 50.0% of its net worth in: (i) the acquisition of credit rights of financial institutions and leasing companies; (ii) fixed-income bonds issued by associated institutions, *provided that* secured by credit rights created or to be created with funds of the respective applications; and (iii) linked transactions (*operações ativas vinculadas*), pursuant to CMN Resolution No. 2,921 of January 17, 2002. The FGC may sell any assets acquired in transactions described in items (i), (ii) and (iii) of this paragraph.

## Corporate Structure

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

The capital stock of financial institutions may be divided into voting or non-voting shares, where non-voting shares may not exceed 50.0% of the total capital stock.

## 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 risks. 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 loss provision as follows:

<b>Loan category</b>	<b>Minimum provision</b>
AA .....	0.0%
A .....	0.5%
B .....	1.0%
C .....	3.0%
D .....	10.0%
E.....	30.0%
F.....	50.0%
G .....	70.0%
H <sup>(1)</sup> .....	100.0%

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*Note:*

(1) Banks must write off any loan within six months after it is ranked H.

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 5.0% of the bank's reference 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 within 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, net worth and credit history (as well as other personal data).

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

<u>Number of Days Past Due(1)</u>	<u>Maximum Classification</u>
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) The period may be doubled in the case of loans with maturity in excess of 36 months.

Financial institutions are required to determine, on a monthly basis, whether any loans must be reclassified as a result of these maximum risk classifications, and, if so, must adjust their loss provisions in accordance with the regulations relating to minimum provisions described above.

In addition, 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, including:

- a breakdown of lending activities and nature of the borrower;
- maturity of the loans;
- amounts of rolled-over, written-off and recovered loans;
- loan portfolio diversification, in accordance with the risk classification; and
- overdue loans, divided between those up to 15 days overdue and those that are more than 15 days overdue.

### **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. 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 upon the client's authorization); and
- prepare macroeconomic analyses.

If the aggregate amount of a client's transactions exceeds R\$5,000, the financial institution must provide the Central Bank with:

- the identity of such client;
- a breakdown of the client's transactions, including any guarantees rendered by the bank with respect to his/her obligations; and

- information regarding the client’s credit risk classification, based on the credit risk classification policy described above.

For those transactions whose total value is equal to or less than R\$5,000, the financial institution must inform the Central Bank of all transactions for the client.

In addition to that, the CMN, through Resolution No. 3,721, dated April 30, 2009, established new standards related to the internal credit risk management structure of financial institutions, which were adopted by October 29, 2010. On March 8, 2012, the Central Bank enacted Circular No. 3,581, which establishes the minimum requirements for the use of internal credit risk classification systems in the calculation of required regulatory capital, as set forth in Resolution No. 3,490.

### **Anti-money Laundering Law**

Law No. 9,613, of March 3, 1998, as amended by Law No. 12,683, of July 9, 2012 (“the Anti-Money Laundering Law”) plays a major role for those engaged in banking and financial activities in Brazil. The Anti-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 a prohibition on using the financial system for these illicit acts.

Pursuant to the Anti-Money Laundering Law, financial institutions must:

- identify and maintain up-to-date records regarding their clients;
- maintain internal controls and records;
- review transactions or proposals with characteristics which may indicate the existence of a money laundering crime;
- keep records of transactions involving electronic transfers and checks for a period of at least five years;
- keep records of transactions that exceed R\$10,000 in a calendar month, or reveal a pattern of activity that suggests a scheme to avoid identifications, for a period of at least five years;
- keep records of transfers involving electronic transfers, checks, administrative checks or payment orders that exceed R\$1,000; and
- inform the appropriate authorities (without the client’s knowledge) of any suspicious transaction or set of transactions performed by individuals or entities pertaining to the same group of companies.

In addition, the Brazilian anti-money laundering law created the Financial Activity Control Council. The main role of the Financial Activity Control Council is to promote cooperation among the Brazilian governmental bodies responsible for implementing national anti-money laundering policies, in order to stem the performance of illegal and fraudulent acts. Their activities also include imposing administrative fines and examining and identifying suspected illegal activities pursuant to the Anti-Money Laundering Law.

On July 24, 2009, the Central Bank issued Circular No. 3,461, consolidating the procedures required of financial institutions in order to prevent the crimes set forth in the Anti-Money Laundering Law. Circular No. 3,461 sets forth requirements for financial institutions relating to (i) internal policies and controls systems, (ii) records of customer information, (iii) records of financial services and transactions, (iv) records of checks and transfer of funds, (v) records of prepaid cards, (vi) records of handling of resources in excess of R\$100,000; and (vii) reports of material information to the Financial Activity Control Council. Furthermore, the CMN enacted, on February 11, 2010, Circular No. 3,430, clarifying concepts relating to customers and politically exposed persons, as well as procedures to be followed in connection with the identification of such customers or persons.

On March 12, 2012, CMN enacted Circular-Letter No. 3,542, which discloses a list of transactions and situations which may signal the occurrence of the crimes provided for the Anti-Money Laundering Law, and therefore are subject to communication to the Financial Activity Control Council.

Also on March 12, 2012, the Central Bank amended the rules applicable to procedures that must be adopted by financial institutions in the prevention and combat of money laundering and terrorism financing, as a response to the recommendations of the Financial Action Task Force (“FATF”). The main measures include: (i) enactment of Circular No. 3,583, which sets forth that (a) financial institutions must not initiate any relationship with clients, or proceed with existing relationships, if it is not possible to fully identify such clients; and (b) anti-money laundering procedures are also applicable to agencies and subsidiaries of Brazilian financial institutions located abroad; and (ii) enactment of Circular No. 3,584, establishing that the institutions authorized to operate in the Brazilian foreign exchange market with financial institutions located abroad must verify if the other party is physically present in the country where it was organized and licensed or is subject to effective supervision.

### **Politically-Exposed Individuals**

According to Circular No. 3,461, which revoked both Circular No. 3,339 of December 22, 2006, and Circular No. 2,852 of December 3, 1998, as amended, which sets out certain procedures to be adopted in the prevention and avoidance of activities relating to the crimes described in the Anti-Money Laundering Law, financial institutions and other institutions authorized to operate by the Central Bank must take certain actions to establish business relationships with, and to follow up on financial transactions of clients who are deemed to be politically-exposed individuals.

For purposes of such regulation, politically-exposed individuals include public agents as well as the immediate family members, spouses, life partners and stepchildren of public agents. Under such regulation, a public agent is defined as a person who occupies or has occupied a relevant public office or position over the past five years in Brazil or other countries, territories and foreign jurisdictions. The five-year term runs retroactively from the initial date of the business relationship or from the date when the client became a politically-exposed individual.

Such institutions must also adopt reinforced and continuous surveillance actions with regard to business relationships with politically-exposed individuals, paying special attention to proposed relationships and transactions of such individuals originating from countries with which Brazil has a large volume of financial and commercial transactions, common borders or ethnic, language or political proximity.

### **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*).

However, the Central Bank is authorized to require financial institutions to provide information generally protected by bank secrecy without judicial authorization within the performance of its supervisory powers, as long as they have strong circumstantial evidence that a client has engaged in tax evasion. Such evidence may be represented by, among others:

- declarations by the client of transactions with a value lower than their market value;
- loans acquired from sources outside the financial system;
- transactions involving “tax havens;”
- expenses or investments which exceed the declared available income;
- overseas currency remittances through non-resident accounts in amounts which exceed the declared available income; and

- legal entities that have their registration with the General Taxpayers Registry cancelled or declared invalid.

Additionally, in accordance with Administrative Ruling No. 811/2008 of the Brazilian Revenue Service, as amended, financial institutions must report certain information relating to transactions carried out in Brazil, such as payments and deposits, among others.

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

The Central Bank currently imposes compulsory deposit and other related requirements upon financial institutions from time to time. The Central Bank uses reserve requirements on demand deposits, savings deposits and time deposits as a mechanism to control the liquidity of the Brazilian financial system. Historically, those imposed reserves have accounted for substantially all amounts required be deposited with the Central Bank.

In light of the global financial crisis in 2008 and 2009, the CMN and the Central Bank enacted the following measures to provide the National Financial System with greater stability, including:

- increasing the rate for demand deposit reserve requirements from 42.0% to 43.0% from July 2010 to July 2012, 44.0% from July 2012 to July 2014, and 45.0% as of July 2014, 45.0% being the rate that was in effect prior to the global financial crisis;
- restoring the rate for time deposit reserve requirements from 13.5% to 15.0% effective March 29, 2010, and further from 15.0% to 20.0%, effective as of December 2010;
- limiting the deductibility from financial institutions' time deposit reserve requirements of certain transactions with smaller financial institutions with a consolidated Tier 1 Capital of no more than R\$5 billion; and
- introducing the requirement that reserve amounts be funded entirely in cash, with time deposit reserve amounts earning interest at the SELIC rate and demand deposit reserve amounts earning no interest.

Below are some of the current types of reserves:

*Demand Deposits.* Pursuant to Circular No. 3,632, dated February 21, 2013, enacted by the Central Bank, banks and other financial institutions are generally required to deposit 45.0% 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 80.0% of the reserve requirement for the respective calculation period, which begins on the Monday of one week and ends on the Friday of the following week.

*Savings Deposits.* Pursuant to Circular No. 3,128 dated June 24, 2002 and Circular No. 3,130 of June 27, 2002, the Central Bank 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 20.0% of the average aggregate balance of savings accounts during the prior week. In addition, a minimum of 65.0% of the total amount of deposits in saving accounts must be used to finance the real estate sector, being 80.0% of that percentage necessarily allocated to residential real estate or the housing construction sector, as determined by CMN Resolution No. 3,932 of December 16, 2010. Pursuant to Resolution No. 3,023 of October 11, 2002, the Central Bank established an additional reserve requirement of 10.0% on the savings account funds captured by the entities of the SBPE. CMN Resolution No. 3,843 of March 10, 2010 prohibits financial institutions from using securities issued by the Brazilian federal government to satisfy this additional reserve requirement.

*Time Deposits.* In accordance with Central Bank Circular No. 3,569, dated December 22, 2011, as amended ("Circular No. 3,569"), banks are subject to a mandatory reserve of 20.0% of the average daily balance of their time deposits and certain other amounts, after a deduction of R\$30.0 million, in the amount exceeding: (i) R\$3.0 billion, for financial institutions with Level I component of regulatory capital below R\$2.0 billion; (ii) R\$2.0 billion, for

financial institutions with Level I component of regulatory capital equal or higher than R\$2.0 billion and below R\$5.0 billion; (iii) R\$1 billion, for financial institutions with Level I component of regulatory capital equal or higher than R\$5.0 billion and below R\$15.0 billion; and (iv) zero, for financial institutions, such as the Bank, with Level I component of regulatory capital higher than R\$15.0 billion. If the applicable reserve requirement of a financial institution is below R\$0.5 million, such financial institution will be exempt from the reserve requirements set forth by Circular No. 3,569 and amendments therein. Amounts subject to this reserve requirement shall be deposited in cash on a specific account and, at the end of each day, deposited amounts shall be equivalent to 100.0% of the applicable reserve requirement.

On February 10, 2012, the Central Bank, with Circular No. 3,576, amended Circular No. 3,569, pursuant to which banks became subject to a mandatory reserve of 20.0% of the average daily balance of their time deposits and certain other amounts, after a deduction of R\$30.0 million, in the amount exceeding: (i) R\$3.0 billion, for financial institutions with Level I component of regulatory capital below R\$2.0 billion; (ii) R\$2.0 billion, for financial institutions with Level I component of regulatory capital equal or higher than R\$2.0 billion and below R\$5.0 billion; (iii) R\$1 billion, for financial institutions with Level I component of regulatory capital equal or higher than R\$5.0 billion and below R\$15.0 billion (as increased from R\$7.0 billion); and (iv) zero, for financial institutions, such as the Bank, with Level I component of regulatory capital higher than R\$15.0 billion (as increased from R\$7.0 billion). If the applicable reserve requirement of a financial institution is below R\$0.5 million, such financial institution will be exempt from the reserve requirements set forth by Circular No. 3,569, as amended. Amounts subject to this reserve requirement shall be deposited in cash in a specific account and, at the end of each day, deposited amounts shall be equivalent to 100.0% of the applicable reserve requirement.

On May 21, 2012, with Circular No. 3,594, amending Circular No. 3,569, the Central Bank permitted banks subject to mandatory collections to (in addition to the transactions already established in Circular 3,569) deduct from amounts to be collected loans for and commercial leasing of automobiles and light commercial vehicles extended after May 22, 2012, as long as the loans are recorded in the banks' respective assets and originated from, for each bank: (i) itself; (ii) another bank that belongs to the same financial conglomerate; or (iii) a bank controlled directly or indirectly by such bank. Circular No. 3,594 also establishes that this deduction may be effected by the bank while the credit operations remain recorded in their assets, in an amount equivalent to total updated loan balances as of the last day of each calculation period, up to a maximum 36.0% of assets.

*Additional Reserve Requirement (Demand Deposits, Saving Deposits 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 that regulation, the aforesaid entities are required to deposit in an interest-bearing account with the Central Bank, on a weekly basis, the cash equivalent of the sum of the following amounts in excess of R\$3 billion for financial institutions with an adjusted Level I component of regulatory capital below R\$2.0 billion, R\$2.0 billion for financial institutions with Level I component of regulatory capital below R\$5.0 billion and equal to or higher than R\$2.0 billion, R\$1.0 billion for financial institutions with Level I component of regulatory capital below R\$15.0 billion and equal to or higher than R\$5.0 billion or zero for financial institutions, such as the Bank, with a Level I component of regulatory capital equal to or higher than R\$15.0 billion: (i) 12.0% of the arithmetic average of the time deposits funds and certain other amounts subject to the respective reserve requirement; (ii) 10.0% of the arithmetic average of the savings deposits funds subject to the respective reserve requirement; and (iii) 12.0% of the arithmetic average of the demand deposits funds subject to the respective reserve requirement. The reserve requirements must be met in cash on a specific account and, at the end of each day, the balance in the interest-bearing account must be equivalent to 100.0% of the additional reserve requirement.

On February 10, 2012, the Central Bank, with Circular No. 3,576, amended Circular No. 3,144, which 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 that regulation, the aforesaid entities are required to deposit in an interest-bearing account with the Central Bank, on a weekly basis, the cash equivalent of the sum of the following amounts in excess of R\$3.0 billion for financial institutions with an adjusted Level I component of regulatory capital below R\$2.0 billion, R\$2.0 billion for financial institutions with Level I component of regulatory capital below R\$5.0 billion and equal to or higher than R\$2.0 billion, R\$1.0 billion for financial institutions with Level I component of regulatory capital



below R\$15.0 billion (as increased from R\$7.0 billion) and equal to or higher than R\$5.0 billion or zero for financial institutions, such as the Bank, with a Level I component of regulatory capital equal to or higher than R\$15.0 billion (as increased from R\$7.0 billion): (i) 12.0% of the arithmetic average of the time deposits funds and certain other amounts subject to the respective reserve requirement; (ii) 10.0% of the arithmetic average of the savings deposits funds subject to the respective reserve requirement; and (iii) 12.0% of the arithmetic average of the demand deposits funds subject to the respective reserve requirement. The reserve requirements must be met in cash on a specific account and, at the end of each day, the balance in the interest-bearing account must be equivalent to 100.0% of the additional reserve requirement.

### ***Foreign Currency and Gold Exposure***

Pursuant to CMN Resolution No. 3,488, the total consolidated exposure of a financial institution in foreign currencies and gold cannot exceed 30.0% of its reference equity.

Pursuant to Circular No. 3,548 dated July 8, 2011 as amended by circular No. 3,619 dated December 18, 2012, 60.0% over the final sale day trade of foreign exchange of financial institutions (deducted from U.S.\$3,000,000,000) are generally required to be deposited in an account at the Central Bank. Financial institutions for which the amount to be deposited is lower than R\$100,000 are exempt from such deposit.

### ***Rural Lending***

According to the Manual of Rural Lending, as published by the Central Bank, financial institutions are required to maintain a daily average balance of rural lending not less than 25.0% of the daily balance of all accounts subject to compulsory reserve requirements. Financial institutions must provide the Central Bank with evidence of compliance with such requirement by the fifth business day of each month. A financial institution that does not meet this requirement will be subject to payment of fines calculated over the daily difference between the requirement and the portion actually used for rural lending and a pecuniary penalty or, at the financial institution's discretion, to deposit the unused amount until the last business day of the subsequent month in a non-interest-bearing account maintained with the Central Bank.

### ***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.

### ***Guarantees***

The Central Bank at times has established a reserve requirement that a financial institution deposit in a non-interest-bearing account with the Central Bank an amount equivalent to 60.0% of the total amount of guarantees given by such financial institution in relation to loans and financings entered into by non-financial legal entities and individuals. However, such percentage was reduced to zero by Central Bank Circular No. 2,704 of July 3, 1996.

### ***Reinvestment of Deposits Linked to Interbank Rates***

Pursuant to CMN Resolution No. 2,172, dated June 30, 1995 (further revoked by CMN Resolution No. 3,932, of December 16, 2010), financial institutions were permitted to accept deposits with interest calculated by reference to an Average Interbank Interest Rate (*Taxa Básica Financeira*), subject to a reserve requirement and *provided that* such deposits are made for a minimum of 90 days.

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 reimpose these requirements or impose similar restrictions in the future.

## Taxation of Financial Transactions

Financial transactions in Brazil are generally subject to income tax and to the IOF.

The income tax assessed on the income received on financial transactions by Brazilian residents generally depends on: (i) the type of investment (fixed or variable income, as defined by Brazilian law; variable income investments usually being treated more favorably); and (ii) the term of the investment (long-term investments usually have a more favorable treatment). The income tax assessed on income deriving from financial transactions is: (a) for Brazilian legal entities, a prepayment of the corporate income tax due by them; and (b) exclusive for individuals that are Brazilian residents. 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 favorable taxation regime.

### *IOF*

IOF is a tax levied on foreign exchange, securities/bonds, 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 latter of: (i) the first day of the year following their publication; and (ii) 90 days after their publication. An Executive Decree increasing the IOF rate will therefore take effect from its publication date. Pursuant to Decree No. 6,306 of December 14, 2007, as amended (“Decree No. 6,306”), foreign exchange transactions are subject to the IOF. Under the IOF regulations currently in force, the Minister of Finance is empowered to establish the applicable IOF rate. Such IOF rate can be increased at any time up to a rate of 25.0%. The abovementioned Decree sets out that the current general IOF rate is 0.38%, although there are some exceptions, such as:

- (i) foreign exchange transactions for the inflow of funds, including symbolic transactions, related to external credits, subject to registration with the Central Bank, involving direct external credits or credits obtained by means of issuance of notes in the international market with a minimum average term of up to 360 days, in which case the rate is 6.0%;
- (ii) foreign exchange transactions for the inflow and outflow of funds related to external credits, excluding the transactions mentioned in item (i) above, in which case the rate is 0.0%;
- (iii) 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;
- (iv) 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 0.0%;
- (v) foreign exchange transactions related to export of goods and services, in which case the rate is 0%;
- (vi) foreign exchange transactions for the inflow and outflow of funds related to investments made by investment funds that invest in non-Brazilian markets in accordance with the rules set forth by the CVM, in which case the rate is 0.0%;
- (vii) foreign exchange transactions for the inflow of funds related to investments made by non-residents in the Brazilian financial market executed on the BM&FBOVESPA in accordance with the rules set forth by the CVM (except for derivative transactions with pre-defined earnings), in which case the rate is 0.0%;
- (viii) foreign exchange transactions for the inflow of funds related to investments made by non-residents in the Brazilian capital markets, including the acquisition of shares in public offers and other

similar transactions and investments in shares issued by Brazilian private equity (FIP) and venture capital (FIEE) funds, in which case the rate is 0.0%;

- (ix) foreign exchange transactions for the symbolic inflow of funds in connection with the cancellation of depository receipts for investment in shares traded on the BM&FBOVESPA, in which case the rate is 0.0%;
- (x) foreign exchange transactions for the symbolic inflow of funds due to conversion of the foreign investor regime from direct investment to investment in shares traded within the Stock Exchange in accordance with the rules set forth by the CMN, in which case the rate is 0.0%.
- (xi) foreign exchange transactions for the inflow of resources for investment in securities issued in accordance with sections 1 and 3 of Law 12,431, such as infrastructure debentures, in which case the rate is 0.0%.
- (xii) foreign exchange transactions for the inflow of funds related to investments made by non-residents in the Brazilian financial and capital markets, other than transactions described in items (vii) to (xi) above, in which case the rate is 6.0%;
- (xiii) foreign exchange transactions for the return (outflow) of funds related to the investments made by non-residents in the Brazilian financial and capital markets mentioned in items (vii) to (xii) above, in which case the rate is 0.0%.
- (xiv) foreign exchange transactions for the remittance of interest on net equity and dividends earned by foreign investors, in which case the rate is 0.0%;
- (xv) foreign exchange transactions performed between financial institutions, in which case the rate is 0.0%;
- (xvi) 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 0.0%;
- (xvii) 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 0.0%; and
- (xviii) foreign exchange transaction related to the acquisition of foreign currency by financial institutions simultaneously contracted with a foreign currency sale transaction, exclusively when required by regulatory provision, except the transactions mentioned in items (i), (viii), (ix) and (xii), when the simultaneous foreign exchange transactions are specifically required in applicable regulations, in which case the rate is 0.0%.

IOF tax may also be levied on issuances of bonds or securities, including transactions carried out on Brazilian stock, futures or commodities exchanges (“IOF/*Títulos*”). The rate of IOF/*Títulos* tax with respect to many securities transactions is currently 0.0%, 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/*Títulos* is assessed at the rate of 1.0% on the national adjusted value of financial derivatives, except in cases of derivatives used as hedges for exports when the ratio between the daily sold exposure in the derivatives and the amount of total exports in the preceding year does not exceed 1.2%. In addition, IOF/*Títulos* is 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 mutual funds or investment pools. The maximum rate of IOF/*Títulos* payable in such cases is 1.0% per day, up to the amount equal to the gain made on the transaction, and

decreases with the duration 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 0.0%:

1. transactions carried out by financial institutions and other institutions chartered by the Central Bank as principals, except the consortium manager;
2. transactions carried out by mutual funds or investment pools themselves;
3. transactions carried out in the equity markets, including those performed in stock, futures and commodities exchanges and similar entities;
4. redemptions of shares in equity funds; and
5. transactions carried out by governmental entities, political parties and worker's syndicates.

IOF also applies to credit transactions, except for foreign credit. The IOF levied on credit transactions granted to legal entities is generally assessed at a daily rate of 0.0041%, up to a limit of 1.5%. Additionally, an IOF surtax of 0.38% is currently applicable to most credit transactions.

In addition, IOF tax is levied on insurance transactions at the rate of: (i) 0.0% 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 Brazilian Corporations***

Brazilian companies' income tax is made up of two components, a federal income tax and social contribution on taxable profits, which is known as the "Social Contribution on Net Profits." In turn, the federal income tax includes two components: a federal income tax and an additional income tax. The federal income tax is assessed at a combined rate of up to 25.0% of adjusted net income (the normal rate for Brazilian legal entities is 15.0% plus 10.0% for legal entities with annual profits exceeding R\$240,000). The social contribution on net profits is currently assessed at a rate of 15.0% for financial institutions and 9.0% for non-financial institutions pursuant to Law No. 11,727.

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.

As of January 1, 2002, Provisional 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, unless the Brazilian entity is liquidated before the date of its year-end balance sheet, in which case the profits are taxed at the time of its liquidation. Dividends deriving from profits generated as from January 1, 1996 are not subject to withholding income tax when paid, nor to corporate income tax or individual income tax on the person receiving the dividend. However, as the payment of dividends is not tax deductible for the company distributing them, there is an alternative regime for shareholder compensation called "interest on net equity" which allows companies to deduct any interest paid to shareholders from net profits for tax purposes.

Law No. 9,249 dated December 26, 1995 allows a corporation to deduct from its net profits for tax purposes any interest paid to shareholders as remuneration of the 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, as determined by the Central Bank from time to time, and cannot exceed the greater of:

- 50.0% of the net income (after social contributions on profit and before the federal income tax provision and the deduction of the interest amount attributable to shareholders) related to the period in respect of which the payment is made; or
- 50.0% 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 15.0%, or 25.0% in the case of a shareholder who is domiciled in a “tax haven” jurisdiction. These payments may be qualified, at their net value, as part of any mandatory dividend.

Tax losses carried forward are available for offsetting up to 30.0% of the annual taxable income. No time limit is currently imposed on the application of tax losses to offset future taxable income.

Two federal contributions are imposed on the gross revenues of corporate entities: the Social Integration Program (*Programa de Integração Social*, or “PIS”) and the Social Security Financing Tax (*Contribuição para Financiamento da Seguridade Social*, or “COFINS”).

In May 2003, the Brazilian Congress approved an increase in the rate of COFINS, payable by the financial services sector. Since September 2003, the PIS and COFINS have been imposed over financial institutions’ gross revenues at a combined rate of 4.65%, but some specific costs, such as funding cost, are authorized to be deducted from the PIS and COFINS tax bases. The COFINS and the PIS rate for some non-financial companies have increased from 3.0% to 7.6% and from 0.65 to 1.65%, respectively, resulting in a combined rate of 9.25%, although certain deductions for expenses are authorized (non-cumulative PIS and COFINS regime). Pursuant to Section 1 of Decree No. 5,442 of May 9, 2005, the PIS and COFINS non-cumulative rates applicable to financial revenues received by legal entities (non-financial institutions) is zero percent.

#### ***Law No. 12, 249 of June 11, 2010***

The Brazilian government has introduced thin capitalization provisions, effective as of January 1, 2010, through the enactment of Provisional Measure (*Medida Provisória*) No. 472, enacted by the Brazilian government on December 15, 2009, later converted into Law No. 12,249 of June 11, 2010 (“Law No. 12,249”). As a general rule, thin capitalization provisions are intended to limit the tax deductibility of interest payments made by a Brazilian company to: (i) related parties, as set forth in the Brazilian transfer pricing rules; or (ii) a beneficiary that is domiciled or incorporated in a tax haven jurisdiction or that benefits from a privileged tax regime.

Thin capitalization rules are applicable to transactions with a foreign related party. Hence, the interest paid or credited to a foreign related party is deductible for IRPJ and CSLL purposes if, concurrently:

- (i) in the case of indebtedness to a related party that holds a direct equity stake in the Brazilian entity, the relevant indebtedness of the Brazilian legal entity, on the interest accrual date, does not exceed twice the value of the stake held by the related party in the net worth of the Brazilian legal entity (individual limit);
- (ii) in the case of indebtedness to a related party that does not hold a direct equity stake in the Brazilian entity: the relevant indebtedness of the Brazilian legal entity, on the interest accrual date, does not exceed twice the value of the net worth of the Brazilian legal entity (individual limit);

- (iii) in either (i) or (ii) above, the sum of the indebtedness of the Brazilian legal entity to all related parties, on the interest accrual date, does not exceed twice the aggregate value of the stakes of all related parties in the net worth of the Brazilian legal entity (collective limit). However, pursuant to Law 12,249, this item (iii) does not apply in the event of indebtedness exclusively to foreign related parties which do not hold direct equity stakes in the Brazilian entity, in which case the total indebtedness cannot exceed twice the value of the net worth of the Brazilian legal entity. In cases where the lender is located in a tax haven jurisdiction or benefits from a privileged tax regime, the interest paid or credited to a lender (entity or individual) resident or domiciled in a tax haven jurisdiction or that benefits from a privileged tax regime is deductible for IRPJ and CSLL purposes, if the total indebtedness of the Brazilian legal entity to residents located in tax haven jurisdictions or that benefit from privileged tax regimes does not exceed 30.0% of the net worth of the Brazilian legal entity.

Moreover, pursuant to Law 12,249, interest payments or credits to an entity or individual resident or domiciled in a tax haven jurisdiction or that benefits from a privileged tax regime will not be deductible unless the following requirements are fulfilled, concurrently: (i) identification of the actual beneficiary abroad; (ii) evidence of the operational capacity of the foreign lender; and (iii) documentary evidence of payment of the respective price or receipt of the assets and rights or use of the service. For such purposes, the actual beneficiary is deemed to be (i) an entity that is not incorporated with the sole or main purpose of achieving tax savings and (ii) which receives such payments on its own account (rather than on behalf of a third party, as an agent or fiduciary manager, etc.). Since the provisions introduced by Law No. 12,249 are very recent, it is still unclear how the tax authorities will interpret and apply such provisions. These new regulations may have an impact on the transactions performed by any Brazilian company.

***Law No. 12,715 of September 17, 2012 and Law No. 12,766 of December 28, 2012***

Please note that the Brazilian transfer pricing rules on the deductibility of interest were recently amended by Law 12,715 and Law 12,766.

Law 12,715 and 12,766 amended Law 9,430/1996 that sets forth transfer pricing rules for loans with related parties abroad or parties domiciled in tax havens as defined under Brazilian law. Therefore, the tax deductibility limitation, which is the 6-month Libor plus a spread, will only apply to contracts executed as of January 1, 2013, or later, which means that, for all future years, the tax deductibility of interest related to loans executed before January 1st, 2013 and registered with the Central Bank, will not be subject to the Libor plus spread limitation.

Law 12,766 also established that the applicable rates to determine the deductibility limit of interest on loan agreements executed on or after January 1, 2013 are:

- In the case of transactions in US dollars with prefixed rates: market rate for Brazilian sovereign bonds issued in the external market in US dollars;
- In the case of transactions in Brazilian *reais* with prefixed rates: market rate for Brazilian sovereign bonds issued in the external market in US dollars;
- In all other cases: Libor for a 6-month period.

In order to determine the deductible amount of interest related to agreements executed on or after January 1 2013, an amount will be established annually by the Minister of Finance based on the average market rate, which amount should be added to the applicable rate.

Law 12,766 expressly provides that novation and renegotiation are considered new contracts, which will result in the application of the new interest tax deductibility limitation to the agreement.

## **Regulations Affecting the Bank's Relationship with its 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 Defense Code and the Banking Client Defense Code***

In 1990, the Brazilian Consumer Defense Code (*Código de Defesa do Consumidor*) was enacted to establish rigid rules to govern the relationship between product and service providers and consumers and to protect final consumers. In June 2006, the Brazilian Supreme Court of Justice ruled that the Brazilian Consumer Defense Code also applies to transactions between financial institutions and their clients. Financial institutions are also subject to specific regulation of the CMN, which specifically regulates the relationship between financial institutions and their clients. CMN Resolution No. 3,694 dated March 26, 2009 and CMN Resolution No. 3,919 dated November 25, 2010, as amended, established new procedures with respect to the settlement of financial transactions and to services provided by financial institutions to clients and the public in general, aiming at improving the relationship between market participants by fostering additional transparency, discipline, competition and reliability on the part of financial institutions. The new regulation consolidates all the previous related rules. The main changes introduced by the Consumer Defense Code are described below:

- financial institutions must ensure that clients are fully aware of all contractual clauses, including responsibilities and penalties applicable to both parties, in order to protect the counterparties against abusive practices. All queries, consultations or complaints regarding agreements or the publicity of clauses must be promptly answered, and fees, commissions or any other forms of service or operational remuneration cannot be increased unless reasonably justified (in any event these cannot be higher than the limits established by the Central Bank);
- financial institutions are prohibited from transferring funds from their clients' various accounts without prior authorization;
- financial institutions cannot require that transactions linked to one another must be carried out by the same institution. If the transaction is dependent on another transaction, the client is free to enter into the latter with any financial institution it chooses;
- financial institutions are prohibited from releasing misleading or abusive publicity or information about their contracts or services. Financial institutions are liable for any damages caused to their clients by their misrepresentations;
- interest charges in connection with personal credit and consumer directed credit must be proportionally reduced in case of anticipated settlement of debts;
- clients have the right to withdraw up to R\$5,000 upon request. For higher amounts, clients are required to give the financial institution at least 24 hours' prior notice; and
- adequate treatment for the elderly and physically disabled.

### **Claims Department (*Ouvidoria*)**

Our claims department complies with the regulatory requirements of CMN Resolution 3,849 dated as of March 25, 2010. Our claims department is responsible for monitoring all our clients' claims, receiving and addressing these claims and suggesting any eventual solutions. Claims are monitored on a daily basis and our Internal Audit Committee, Audit Committee and Executive Officers are informed on the status of all claims received by our claims department on a semi-annual basis.

## **Bank Secrecy**

Financial institutions must maintain the secrecy of their banking operations and services provided to their clients. According to Supplementary Law No. 105 of January 10, 2001 (“Supplementary Law No. 105”) 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) disclosure of information with the express consent of the interested parties; (ii) sharing of information on credit history between financial institutions for record purposes; (iii) 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; and (iv) occurrence or suspicion that criminal or administrative illegal activities have been performed. Supplementary Law No. 105 also allows the Central Bank or the CVM to exchange information with foreign governmental authorities, provided that a specific treaty in that respect must have been previously executed.

Auditors of the Brazilian Internal Revenue Service may also inspect an institution’s documents, books and financial registry in certain circumstances, provided that it obtains permission from the client or by a court order.

## **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.

### ***Administrative Liquidation***

An administrative liquidation of any financial institution (with the exception of public financial institutions controlled by the Brazilian government, such as the Bank) may be carried out by the Central Bank if it can be established that:

- the 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 authorization, 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 intervention by the Central Bank 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 objective of the RAET is to assist with maintaining the solvency and financial conditions 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 may cease upon the occurrence of any of the following events: (a) acquisition by the Brazilian government of control of the financial institution, (b) corporate restructuring, merger, spin-off, amalgamation or transfer of the controlling interest of the financial institution, (c) decision of the Central Bank or (d) declaration of extra-judicial liquidation of the financial institution.

### ***Repayment of Creditors in Liquidation***

In case of bankruptcy or liquidation of a financial institution, certain credits, such as credits for salaries up to 150 minimum wages (*salários mínimos*) per labor creditor, among others, will have preference over any other credits.

The FGC is a deposit insurance system which guarantees a maximum amount of R\$70,000 of deposits and credit instruments held by an individual against a financial institution (or against financial institutions of the same financial group) and a maximum amount of R\$20 million of deposits for banks with deposits, up to R\$5 billion per bank. The Credit Insurance Fund is funded principally by mandatory contributions from all Brazilian financial institutions that work with client deposits. The payment of unsecured credit and client 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.

In addition, two laws, introduced in 1995, affect the priority of repayment of creditors of Brazilian banks in the event of their insolvency, bankruptcy or similar proceedings. First, Law No. 9,069 of June 29, 1995 confers immunity from attachment on compulsory deposits maintained by financial institutions with the Central Bank. Such deposits may not be attached in actions by a bank’s general creditors for the repayment of debts. Second, Law No. 9,450 of March 14, 1997 requires that the assets of any insolvent bank funded by loans made by foreign banks under trade finance lines be used to repay amounts owing under such lines in preference to those amounts owing to the general creditors of such insolvent bank.

### ***Cancellation of Banking License***

The Banking Reform Law, together with specific regulations enacted by CMN Resolution No. 1,065 of December 5, 1985, provides that some penalties can be imposed upon financial institutions in certain situations. Among them, a financial institution may be subject to the cancellation of its license to operate and/or to perform exchange transactions. Such cancellations are applicable under certain circumstances established by the Central Bank as, for instance, in case of repeated: (a) violation of the Central Bank regulations by the management of the financial institution, or (b) negligence of the financial institution in pursuing adequate banking practices concerning its exchange activities.

In addition, Central Bank may, according to CMN Resolution No. 4,122 of August 2, 2012, cancel the authorization to operate granted by the Central Bank if one or more of the following situations are verified at any time: (i) lack of customary performance of transactions deemed essential, pursuant to the applicable rules; (ii) operating inactivity; (iii) the institution is not located at the address informed to the Central Bank; (iv) unjustified interruption of sending the Central Bank the statements required under prevailing regulation for over four (4) months; and (v) noncompliance with the business plan.

Decree-Law No. 2,321 of February 25, 1987 (“Decree Law No. 2,321”), which regulates the RAET, provides that, if such provisional system is decreed, the individuals or legal entities that have a control relationship with the administered institution shall be held jointly liable with the former management for the obligations assumed thereby, irrespective of good or bad faith thereunder. Such joint liability is limited to the overall uncovered liabilities of the institution according to a balance sheet prepared as at the date when the provisional administration system is ordered.

Furthermore, Law No. 9,447 of March 14, 1997, provides for the liability of controlling persons of the financial institutions under intervention, extrajudicial liquidation or RAET (“Law No. 9,447/97”).

Law No. 9,447/97 determines that the controlling persons of a financial institution under extrajudicial liquidation or intervention are also jointly and severally liable for the obligations assumed by such institution. This same law further establishes that the assets of individuals or legal entities that exercise direct or indirect control over financial institutions under intervention, extrajudicial liquidation or temporary regulatory receivership must be rendered unavailable for disposal or encumbrance in any way, until their liability is eventually verified.

### **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 for International Settlements. 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, clearing houses have ordinary credits against any participant under bankruptcy laws.

The systems consisting of 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 clearing houses 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, such as Resolution No. 4,090, issued by the CMN on May 24, 2012. 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 unwindings;
- adopt system controls and test them periodically;
- promptly provide to the institution's management available information and analyses regarding any liquidity risk identified, including any conclusions or remedies adopted; and
- develop contingency plans for handling liquidity crisis situations.

#### ***Acquisition of Companies by Financial Institutions***

On March 29, 2012, CMN enacted Resolution No. 4,062, which amends Article 8 of CMN Resolution No. 2,723 of May 31, 2000. Under the previous regulation in force, financial institutions were merely required to inform the Central Bank of their interest in the capital of any other company headquartered in Brazil and the partial or total disposal of their interest in such companies. The new rule, however, requires financial institutions, such as the Bank, to request prior authorization from the Central Bank to have direct or indirect interest in the corporate capital of any companies headquartered in Brazil or abroad, except for corporate interests which are typical for investment or development portfolios maintained by investment, development or multiple banks and factoring agencies (*agências de fomento*). CMN Resolution No. 4,062 also establishes that the Central Bank will only allow interests in companies which carry out activities that are complementary or subsidiary to the activities of the financial institution.

On April 26, 2012, the Central Bank enacted Circular No. 3,590, which sets forth that the Central Bank will examine certain corporate reorganizations and other acts involving two or more financial institutions not only considering their potential effects on the financial system and its stability but also any potential impacts regarding market concentration and competition. Pursuant to Circular No. 3,590, such acts will be subject to the Central Bank's analysis, except in the case of transactions involving institutions of the same economic group or credit assignments which do not involve a business transfer. The methodology and parameters used in the market concentration analysis of such activity will be included in the Guide for Analysis of Monopolistic Activity in the Financial System, to be published by the Department of Organization of the Financial System of the Central Bank. Upon approval of the transaction, the Central Bank may establish certain restrictions thereon and require that the financial institutions execute a market share agreement that sets forth how resources will be shared.

## **Foreign Investment and the Brazilian Constitution**

### ***Foreign Banks***

The Brazilian Constitution prohibits foreign financial institutions from establishing new branches in Brazil, except when duly authorized by the Brazilian government (by means of a presidential decree). A foreign financial institution duly authorized 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 authorization 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 authorization.

### **Consolidation of Exchange Rules**

On March 23, 2010 the CMN enacted Resolution No. 3,844 consolidating the general provisions relating to foreign capital entering Brazil by way of direct investments and financial transactions. Such rule governs the registry of flows of direct investments, credits, royalties, transfers of technology and foreign leasing, among other things. The Central Bank, by means of Circular No. 3,491 dated March 29, 2010, also simplified the registry of transactions. The new rules were included in the Regulation of the Exchange Market and Foreign Capital (*Regulamento do Mercado de Câmbio e Capitais Internacionais*) and several outdated rules were revoked.

The main aspects of the abovementioned rules are the following:

- Financial transfers (to and from Brazil), in *reais* or foreign currency, related to the flow of foreign capital pursuant to Resolution No. 3,844 are regulated by the Brazilian exchange market;
- Specific approvals or prior consent of the Central Bank are no longer required; and
- Presentation of certain information relating to the transaction to the Central Bank is no longer required.

Furthermore, Circular No. 3,493 dated March 29, 2010, in line with the recent improvement of the Brazilian exchange market made by the Central Bank as discussed above, sets forth the following main changes:

- Simultaneous exchange agreements are no longer required for payment of premiums for indemnification related to international reinsurance when the flow of funds occurs in a foreign currency account held by an insurance sector company;
- Certain institutions operating in the exchange market may now maintain more than one foreign currency account at the same site in Brazil;
- Certain records of exchange transactions no longer need to be maintained given that the anti-money laundering rules already cover such requirement; and
- Principal offices of financial institutions operating in the exchange market may now carry out the same transactions as branch offices are permitted to carry out.

On March 1, 2012, the Central Bank issued Circular No. 3,580 which amended Brazilian regulations concerning foreign exchange markets and international capital flows and establishing limitations on export financings. According to Circular No. 3,580, prepayments for goods to be exported from Brazil can only be made by the importer up to 360 days in advance. On April 5, 2012, further amendments were made by Circular No. 3,589 to Brazilian regulations regarding certain aspects of foreign exchange transactions relating to exports. In respect of

foreign exchange transactions related to exports made after the enactment of Circular No. 3,589, the term for the shipping of exported goods must be 360 days from the execution of the foreign exchange agreement, with an additional maximum term of 750 days between execution and settlement of the foreign exchange transaction. In respect of foreign exchange transactions related to exports entered into before the enactment of Circular No. 3,589, in case the exporter of the goods enters into any insolvency, bankruptcy or other proceeding that confirms in writing the inability of such exporter to ship the exported goods or prevents the exported services due to facts outside of its control, the term for the shipping of the exported goods must be April 30, 2014, **provided that** the period between the execution and the settlement of the foreign exchange agreement is not more than 1,500 days.

#### *Social-Environmental Policy (PRSA)*

On June 13, 2012, the Central Bank announced the terms of Public Hearing No. 41/2012, which discloses proposed regulations regarding: (i) the implementation of a social-environmental responsibility policy (*política de responsabilidade social ambiental*, or “PRSA”) for financial institutions and other institutions authorized to operate by the Central Bank; and (ii) the preparation and disclosure of social-environmental responsibility reports. Public Hearing No. 41/2012 is open to suggestions and comments from the public until September 11, 2012.

The initial draft regulation establishes that financial and other institutions authorized to operate by the Central Bank must develop a PRSA, as a management tool for considering the social, economic and environmental components of their business in aid of establishing ethical and transparent relationships with their respective interested third parties. The second draft regulation provides general guidelines regarding the preparation and disclosure of the social-environmental report to promote transparency in financial institutions’ actions as well as to fulfill the requirements of the PRSA.

## Business

### Overview

We are a privately held Brazilian bank founded in 1987 that provides a wide range of financial services. Our business is focused on corporate lending, primarily providing financing to companies in the middle market and agribusiness market, as well as retail lending, providing financing to individuals, especially consumer finance and credit cards. We believe we are among the leading mid-sized Brazilian banks in the segments in which we operate. We are controlled by Vicunha Group, a highly successful conglomerate controlled by the Steinbruch family which has been in operation for more than 40 years in Brazil. Currently, the Vicunha Group's most important investments, in addition to its investment in the Bank, are in CSN, a leading Latin American steel company and Vicunha Têxtil, the largest textile producer in Latin America, both of which are controlled by the Vicunha Group. As of December 31, 2012, the total value of our credit portfolio was R\$8.3 billion, and we had total assets of R\$10.5 billion. On the same date, our equity was R\$1.0 billion. Primarily as a result of the restructuring of our business in 2012, we incurred a net loss of R\$138 million for 2012.

Through our diversified product portfolio, as well as our ability to structure financing transactions quickly and efficiently, we have achieved a position of prominence in the segments in which we operate, enabling us to effectively meet our clients' financing needs. The following table summarises our business structure, including our two main business lines and finance and treasury area, as of December 31, 2012:

Corporate Credit	Retail Credit	Finance and Treasury
<ul style="list-style-type: none"> <li>▶ Primarily Middle Market and Agribusiness</li> <li>▶ Multiproduct approach</li> <li>▶ Wide and diversified range of products: working capital, trade finance, guarantees and others</li> <li>▶ Expertise and experience in structuring tailor-made deals</li> </ul>	<ul style="list-style-type: none"> <li>▶ Direct Consumer Credit (CDC)</li> <li>▶ Credit Cards</li> </ul>	Liquidity management and support services for our business areas: <ul style="list-style-type: none"> <li>▶ Treasury (liquidity and pricing)</li> <li>▶ Local funding</li> <li>▶ International funding: trade finance and capital markets</li> </ul>
<ul style="list-style-type: none"> <li>▶ 14 branches in 9 Brazilian states</li> <li>▶ 1,175 active clients</li> </ul>	<ul style="list-style-type: none"> <li>▶ 14 branches in 10 Brazilian states</li> <li>▶ 8,721 points of sale (retailers)</li> <li>▶ Approximately 1.4 million active clients</li> </ul>	<ul style="list-style-type: none"> <li>▶ Headquarters in São Paulo</li> <li>▶ Branch office in the Cayman Islands</li> </ul>
<ul style="list-style-type: none"> <li>▶ Credit portfolio totaling R\$4.6 billion</li> <li>▶ R\$403.9 million in income from financial operations in 2012</li> </ul>	<ul style="list-style-type: none"> <li>▶ Credit portfolio totaling R\$3.6 billion</li> <li>▶ R\$945.4 million in income from financial operations in 2012</li> </ul>	<ul style="list-style-type: none"> <li>▶ Funding:               <ul style="list-style-type: none"> <li>Local: R\$6,838 million</li> <li>International: R\$1,929 million</li> <li>Total: R\$8,767 million</li> </ul> </li> </ul>

Following a major review of our strategy in 2012, we decided to discontinue our operations in vehicle finance and payroll lending. See "Strategy."

We have a finance and treasury area that focuses principally on providing funding and liquidity by efficiently allocating resources with adequate funding costs. The finance and treasury area also provides products to our commercial clients, such as derivatives and foreign currency exchange. This area manages our own portfolios. See "Business—Our Business Activities—Finance and Treasury" and "Business—Risk Management—Market Risk Management and Control."

We believe that our management team stands out due to its high degree of independence, professionalism, transparency, ethics and the adoption of high corporate governance standards. These factors, among others, contributed to IFC's decision to acquire capital in us commencing in June 2007 and which, as of December 31, 2012, represented 12.5% of our share capital. The entry of IFC into our shareholder base provided us with a strategic opportunity to review and improve our policies, in particular in the areas of corporate governance and social and environmental matters. Pursuant to our agreement with IFC, IFC has the right to appoint, and currently maintains, one representative in our Board of Directors. See "Principal Shareholders—IFC."

As of the date of this Offering Circular, we are rated by independent rating agencies as follows: (a) “BB-” (counterparty credit rating) and “brA” (local level) by Standard & Poor’s with negative outlook; (b) “Ba3” (bank deposits) and “A2.br” (NSR bank deposits, domestic currency) by Moody’s, with stable outlook; (c) “A-(bra)” (local level, long-term) by Fitch with a negative outlook; and (d) “low risk (short-term)” by RISKbank.

## **Competitive Strengths**

### ***Competitive Strengths in Market Niches with High Growth Potential***

We operate in the corporate lending market, primarily in the middle market and agribusiness segments, as well as in the retail credit market, each of which we believe offers substantial opportunities for growth and high profitability. Despite the fact the Brazilian economy has grown less in the past two years, we believe that in the next years there will continue to be demand for our credit products in these niche markets.

We believe that the corporate lending market, in particular in the middle and agribusiness markets, will offer excellent opportunities for growth. Similarly, we believe that the retail segment in which we operate continues to exhibit potential for expansion in the Brazilian credit market. We currently operate in the consumer finance and credit card segments. We believe that we are well-positioned to take advantage of the growth in these segments, especially in light of the expansion of the middle class in Brazil. We believe that our competitive advantages enable us to capitalise on the growth in the market niches in which we operate, including:

- *Competitive strengths in the middle market and agribusiness segments*
  - *Our relationship model.* We have the capacity to perform in-depth analyses of each of our corporate clients and understand their business cycles in order to offer the financial products and services that are best suited to their needs at each stage of their business. As a result, we have established long-term relationships with our existing corporate clients and a strong understanding of their particular businesses, in line with our policy of credit monitoring and mitigation of default risks. We believe that this proximity to our existing clients results in a solid, secure and, above all, trusting platform for doing business.
  - *Our comprehensive line of credit products.* The range of credit products we offer enables us to meet our clients’ diverse needs, generating increased cross-selling business opportunities and greater customer loyalty. Our relationship with our clients is built around a multiproduct approach based on which we take advantage of cross-selling opportunities among our product segments. Our finance and treasury area supports our credit operations and complements our lending business by providing our clients with customised financial products. Our focus is to provide credit, creating and structuring products and services tailored to the client’s business. In addition, our diverse range of credit products helps reduce our exposure to market volatility and risks.
  - *High degree of technical expertise, agility and speed, without sacrificing quality, in customising structured transactions.* In addition to offering a diverse range of products, our highly trained personnel work with our clients to tailor structured transactions to their specific business cycles and risks. Our employees are also able to create and implement our structured transactions with both speed and agility.
- *Competitive strengths in the retail credit segment*
  - *Offer of correlated consumer credit products.* In the retail segment we focus on consumer credit through the offer of CDC and credit cards, which are the most common credit products used by Brazilian individuals for their consumer finance needs. Our portfolio of consumer credit products allows us to meet the diverse credit needs of individual borrowers and positions us to take advantage of consumer credit segment.
  - *Deep understanding of our distribution network.* Our working relationship with our points of sale, typically retailers, is crucial for the expansion of our distribution network and business operations. We

have specialised teams dedicated to each area in which we operate (such as tourism, construction materials and auto parts), which allows us to understand the business cycles of our distributors, effectively meet their needs and develop customised processes and controls for each area of operations within the specific point of sale. The expansion of our network is accompanied by the close monitoring of defaults by segment and region, allowing us to quickly implement measures to ensure the credit quality of our portfolio. In addition, our deep understanding of our distribution network enables us to offer to regional and mid-sized retailers structured credit products which are designed to address the particular needs of partners with extensive retail operations, typically a medium or large retail chain. This business model has resulted in loyalty from our points of sale.

- *Modern and efficient technology platform.* Our technology platform enables us to evaluate the credit quality of our clients quickly and accurately. Our proprietary internet-based electronic credit application and approval system, which is currently used in all of our CDC transactions, allows us to respond quickly and efficiently to our clients and provides us and our retailer partners with significantly improved levels of accuracy and dependability.

### ***Diversified Funding Structure***

Our sources of funding are diversified and are matched to each of our classes of assets in order to avoid funding gaps and maintain liquidity. As of December 31, 2012, 78.0% of our funding was from domestic sources, consisting primarily of deposits and investments. These deposits and investments were issued through CDBs, CDIs and DPGEs. As of December 31, 2012, CDBs, CDIs and DPGEs represented 56.7% of our total funding. Other domestic sources of funds included loan obligations and onlending of BNDES funds (4.2%), the issuance and acceptance of reais denominated securities, mainly *Letras Financeiras*, or LFs, and *Letras de Crédito do Agronegócio*, or LCAs (15.4%). On the same date, 22.0% of our funding was from foreign sources and was composed of trade finance and other credit lines with correspondent banks (7.1%), the issuance of securities (10.8%) and the issuance of subordinated debt (3.8%). Our main source of funds for our credit operations is time deposits. We fund these operations through a broad mix of depositors (consisting of 43% institutional investors, 16% corporations, 10% private individuals and 25.1% financial institutions).

### ***Successful and Committed Shareholders***

We are controlled by the respected Vicunha Group, a successful conglomerate which has operated for more than 40 years in Brazil. Currently, the Vicunha Group's most important investments, in addition to its investment in the Bank, are in CSN, a leading Latin American steel company, and Vicunha Têxtil, the largest textile producers in Latin America, both of which are controlled by members of the Vicunha Group. The Vicunha Group's history and reputation for success, along with its ability to generate new business, have contributed significantly to the success and growth of our business and will, we believe, continue to do so. The Vicunha Group has demonstrated its support by injecting fresh capital in the aggregate amount of R\$400 million in 2011 and 2012. As of December 31, 2012, the companies belonging to the Vicunha Group had a total of R\$630 million on deposit with us, or 9.7% of our total deposits.

In addition, IFC has been a shareholder in the Bank since June 2007, which provided us with a strategic opportunity to review and improve our policies, in particular in the areas of corporate governance and social and environmental matters. As of December 31, 2012, IFC held 12.5% of our share capital. See "Principal Shareholders" for a complete breakdown of all capitalization movements that occurred in 2011 and 2012.

### ***Experienced, Agile and Professionalised Management***

Our management and business operations are run in a transparent, ethical and highly professional manner. Our by-laws permit our Board of Directors to have up to seven members. Currently our Board of Directors is comprised of seven members, three of whom were chosen by our principal shareholder, three of whom are independent and one of whom is appointed by IFC in accordance with our shareholders' agreement. There are no family relationships among our executives on the one hand and members of our Board of Directors or the Steinbruch family on the other hand. We believe that this is one of the key differences between us and our competitors. As a result, strategic decisions made during the normal course of our business are made by highly qualified independent market



professionals with extensive knowledge. Our senior executives have excellent academic credentials, broad practical experience and extensive knowledge in their respective business areas, with an average of more than 20 years of experience in financial markets. We believe that the collective experience of our management team has been a major factor in the development of our business, and in particular to the agility of our decision making and transaction execution. See “Management.”

## **Strategy**

Following upon a major review of our strategy in 2012, we determined to discontinue our operations in vehicle finance and payroll lending and grow our corporate credit operations. We are committed to our policy of focusing on selected corporate and retail credit products. Our goal is to consolidate our presence in the segments in which we operate in order to achieve higher profitability and maximise our shareholders’ returns. In order to achieve this, the key elements of our strategy are as follows:

### ***Grow Our Corporate Credit Operations***

We intend to expand our corporate credit operations by:

- *Focusing on middle market and agribusiness.* We aim to focus our corporate credit transactions with companies in the middle market and agribusiness segments by increasing our customer base in these segments while continuing to apply our credit and collateral quality criteria.
- *Adopting a multiproduct credit approach:* We intend to attract and retain corporate clients by means of the offering of multiple credit products designed for their specific needs. These products will be offered and designed by our teams specializing in credit, structuring and sales.
- *Focusing on relationships with clients with high credit quality.* We aim to primarily focus on clients which present an actual or potential demand for multiple credit products with larger ticket sizes. This will allow us to deepen and straighten our relationship with clients, create cross-selling opportunities and generally improve the quality of our credit portfolio.
- *Further Improving our Growth Management Project,* which consists of a credit flow process initiated on July 1, 2010, that continuously improve the credit process by way of a scalable and efficient system. The first phase of the project, initiated in 2010, entailed mapping the credit flow processes, including the identification of critical points. In 2012 we implemented the Commercial Portal which permits a consolidated view of clients, products and credit risks improving the agility and flexibility of our information systems and, above all, allowing our Commercial Area to focus exclusively on its core business of developing and managing our relationship with clients. In 2013 we intend to continue to improve our Growth Management Process by, initially, integrating our credit approval process into the existing workflow and, at a later stage, including the Credit Formalization Process.

### ***Refocus and Continue to Grow our Selected Retail Credit Operations***

We discontinued our operations in payroll and vehicle finance lending in March 2012 and December 2012, respectively, because, among other factors, of their low margins and higher risks, including default risk, associated with them. We will continue to operate with selected products in the retail credit segment, with a view to achieve higher profitability. The key elements of our strategy in the retail segment are as follows:

- *Focusing on complementary consumer finance products.* We intend to continue to operate with CDCs and credit cards, which are correlated consumer finance products, in particular structured CDC products, which are tailored to meet the needs of customers with extensive retail operations, usually large retail chains.
- *Obtain synergies and economies of scale.* As a result of the major review of our strategy in 2012, Credifibra was merged into us in October 2012. In addition, we have implemented certain changes in our operations and administrative structure to benefit from existing synergies, which also allowed us to

achieve significant economies of scale. We will continue to periodically review our operations and process with a view to further improve our control processes and to benefit from additional synergies and economies of scale.

- *Maintaining our policy of segmenting our sales force according to the retail store owner's line of business* to better understand and respond to the credit needs of our clients. We believe this proximity to our clients will strongly contribute to the continued growth of our client base and volume of retail credit operations;

### ***Focus on Profitability and Efficiency***

We closely monitor and control our expenses with a view to maintain a low-cost operating structure which is well-suited to our activities. Our growth strategy is designed to continuously improve our operational processes so that we can grow as efficiently as possible. We intend to improve the quality of our asset portfolio through conservative credit and management policies. We believe that these policies are essential for us to achieve sustained growth with adequate levels of risk and return on investment for our business and our shareholders.

### ***Ongoing Investment in our Professionals and Employees***

The quality of our professionals and employees is vital to our growth plans and the success of our strategy. Our human resources policies are designed to keep and attract highly qualified and experienced senior executives and professionals, and we plan to maintain these policies in the future. To that end, we will maintain our current compensation and benefits policy, which is focused on motivating our professionals and maximising our results by aligning each professional's individual objectives with those of the Bank. In addition, we will continue to invest in training and professional qualification programs for our executives and professionals, through a number of courses, including MBAs, graduate school and e-learning courses. The head of our human resources department reports directly to our CEO, which highlights the strategic importance that we attribute to this department.

### ***Recent Developments***

On January 3, 2013, we reduced the capital of our Cayman Branch by approximately R\$100 million.

On February 19, 2013, Mr. Benjamin Streinbuch was elected as chairman of our Board of Directors. Mr. Benjamin Streinbuch's election remains subject to approval by the Central Bank. See "Management—Board of Directors."

### ***Purchase of IFC Common Shares A by Elizabeth S.A. Indústria Têxtil***

On April 8, 2013, our direct controlling shareholder, Elizabeth S.A. Indústria Têxtil, or Elizabeth S.A., entered into an agreement with the International Finance Corporation, or IFC, pursuant to which Elizabeth S.A. has agreed to purchase, and IFC has agreed to sell, all of the Issuer's 208,863,483 Common Shares A currently held by IFC, or IFC Common Shares A. The purchase price of the IFC Common Shares A will be determined pursuant to the terms set forth in the existing Put Option Agreement between Elizabeth S.A. and IFC for the exercise of a put option by IFC in the absence of a liquidity event. The transaction is expected to close no later than April 26, 2013. See "Principal Shareholders—Put Option Agreement."

Following the purchase of the IFC Common Shares A by Elizabeth S.A., IFC will continue to hold 167,105,415 Common Shares B of the Issuer, representing 5.8% of its total equity. In addition, the rights and liabilities of IFC under the Shareholders' Agreement entered into with Elizabeth S.A. will not be amended as a result of the sale of the IFC Common Shares A. See "Principal Shareholders—Shareholders' Agreement."

The table below shows the names and the equity interest of our shareholders with an equity interest equal to or greater than 5% of our capital stock following the purchase of the IFC Common Shares A by Elizabeth S.A.:

<u>Shareholder</u>	<u>Common Shares A</u>	<u>Common Shares B</u>	<u>Equity Interest (%)</u>
Elizabeth S.A. Indústria Têxtil .....	2,637,758,410	-	94.2
International Finance Corporation.....	-	167,105,415	5.8
<b>Total</b> .....	<b>2,846,621,893</b>	<b>167,105,415</b>	<b>100.0</b>

### History

We are controlled by the Vicunha Group, a successful conglomerate which has operated for more than 40 years in Brazil. Currently, the Vicunha Group's most important investments, in addition to its investment in the Bank, are in CSN, a leading Latin American steel company, and Vicunha Têxtil, the largest textile producer in Latin America, both of which are controlled by members of the Vicunha Group.

We commenced our operations in 1987, operating as a securities distributor, Fibra Distribuidora de Títulos e Valores Mobiliários. In 1988, we were established as an investment bank. In 1989, as Banco Fibra S.A., we obtained a license from the Central Bank to operate as a privately held bank providing a wide range of financial services and began operating in the areas of commercial banking, investment banking, consumer credit, foreign exchange and commercial leasing.

Initially, as the Vicunha Group's financing arm, we focused on treasury and investment operations, as well as cash management for the Vicunha Group itself. In 1994, we established significant corporate credit operations, serving large and mid-sized companies. We also initiated our consumer credit operations, primarily through the vehicle financing segment. In 1999 we shifted our focus to middle market and upper middle market companies, or companies with annual revenue between R\$40 million and R\$400 million, having strengthened our position in that segment since that time. In 1999 we also discontinued our vehicle leasing operations.

In 2005, we began to diversify our retail credit operations, offering payroll-deduction loans to government employees and INSS pension recipients on a national scale. In the corporate credit area, we reinforced our operations by opening offices in multiple locations.

In early 2006, we acquired a sales and service promotion firm located in the south of Brazil, and changed the name to GVI Promotora de Vendas e Serviços Ltda., or "GVI," which began structuring and managing our operations related to consumer credit contracts directly to private individuals through a special Internet-based platform.

In June 2007, IFC acquired 7.92% of our total capital and, following certain transactions, as of December 31, 2012, it held 12.5% of our total capital. On October 15, 2007, in line with our strategy of expanding the number of our points of sale in the retail segment, we acquired from Fundo Lecca de Investimentos em Participações 100% of the outstanding share capital of Credlecca S.A. (now Credfibra S.A., or "Credfibra (formerly Credlecca)"). Credfibra (formerly Credlecca) operations were subsequently transferred to GVI.

In August 2008, we received a capital contribution from the Vicunha Group and IFC, in proportion to their respective interest in our capital, in the aggregate amount of R\$275 million.

In September 2009, we entered into the vehicle finance business through the acquisition of 100% of the outstanding share capital of Paulicred from its shareholders. On December 28, 2009, a General Shareholders' Meeting approved the merger of Paulicred and Credfibra (formerly Credlecca) into GVI.

In October 2009, we received authorisation from the Central Bank to incorporate a financing company, Credifibra, through which we conducted almost all of our retail financing operations.

In March 2010, GVI acquired Sofcred, the company responsible for the vehicle financing and payroll deductible lending portfolios of Banco Sofisa S.A. In September 2010, GVI was merged into Credifibra and, in the same month, Credifibra acquired Validata Meios de Pagamento Ltda., or Validata, a credit card processor and acquirer.

In September 2010, we received capital contributions from the Vicunha Group and IFC in the aggregate amount of R\$100 million in proportion to their respective interest in our capital. In March and November 2011, the Vicunha Group made capital contributions each of R\$80 million, totaling R\$160 million. In June and July 2011, IFC made capital contributions totaling R\$80 million.

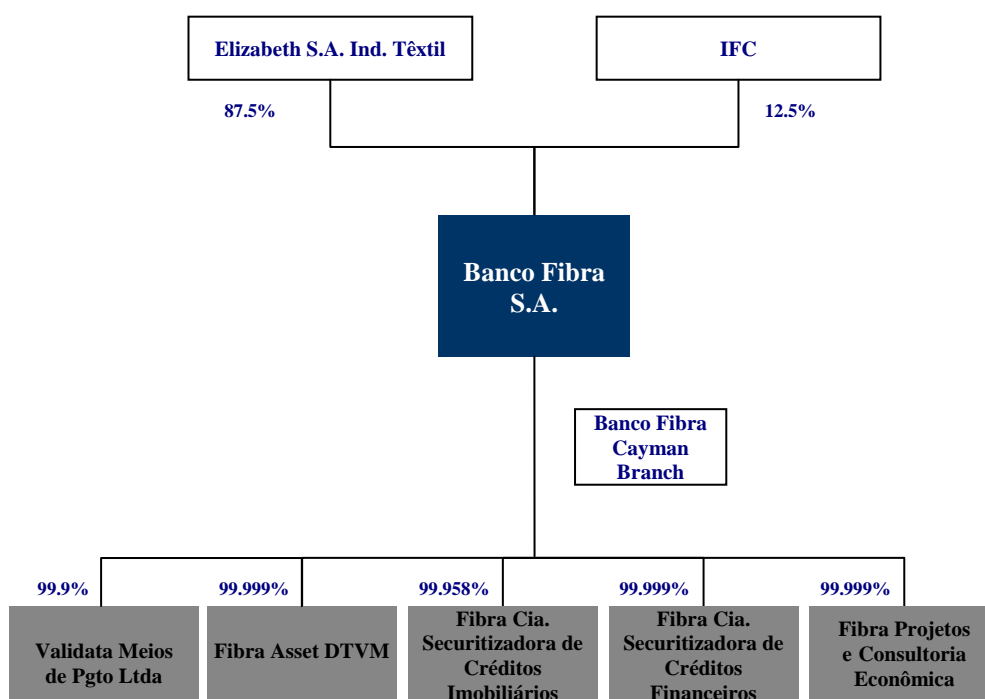
In March 2012, we discontinued our payroll deduction operations and IFC made an additional capital contribution of R\$28 million.

In December 2012, we discontinued our vehicle financing operations, and as a direct consequence of the change and review in our strategy, Credifibra was merged into the Bank. The Vicunha Group made a capital contribution of R\$150 million in December 2012.

### Corporate Structure

We are a bank with limited liability organised as a *sociedade por ações* under the laws of the Federative Republic of Brazil, incorporated on January 15, 1988 and with registration number CNPJ 58.616.418/0001-08. Our headquarters are located in São Paulo, Brazil at Avenida Presidente Juscelino Kubitschek, 360, 4th to 9th Floors, 04543-000 São Paulo, SP, Brazil. Our Grand Cayman branch is a bank with limited liability organised under the laws of the Cayman Islands, with licence number 100095 and registered office at CIBC Financial Centre, 11 Dr. Roy’s Drive, P.O. Box 694GT George Town, Grand Cayman, Cayman Islands, British West Indies. Our investor relations telephone number is (55 11) 3847 6640 and our general facsimile number is (55 11) 3811 4788.

The following chart shows the corporate structure of our operating companies as of December 31, 2012. For more information about our corporate structure, see “Principal Shareholders.”



## **Relevant Controlled Companies**

As of the date of this Offering Circular we held material equity interests in the following operating companies:

### *Fibra Companhia Securitizadora de Créditos Financeiros*

We hold 99.9% of the total share capital of Fibra Companhia Securitizadora de Créditos Financeiros. Fibra Securitizadora de Créditos Financeiros acquires loans by assignment from multiple banks, commercial banks, investment banks, real estate loan companies, leasing companies, mortgage companies, savings and loan associations, and CEF.

### *Fibra Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda.*

We hold 99.9% of the total share capital of Fibra Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda., or Fibra Asset Management. Fibra Asset Management underwrites, either by itself or as part of a syndicate, issuances of securities for resale. Fibra Asset Management also acts as an intermediary in public offerings and distributions of securities, as well as purchasing and selling securities for its own account. It also manages portfolios and provides custody services for securities, performs trustee services, creates, organises and manages investment funds and clubs and provides intermediation and technical consulting or assistance services in transactions in the financial and capital markets.

### *Fibra Companhia Securitizadora e Créditos Imobiliários*

We hold 99.9% of the total share capital of Fibra Companhia Securitizadora e Créditos Imobiliários. Fibra Companhia Securitizadora de Créditos Imobiliários acquires and securitises mortgage loans and other loans derived from real estate finance transactions.

### *Fibra Projetos de Consultoria Econômica Ltda.*

We hold 99.9% of the total share capital of Fibra Projetos de Consultoria Econômica Ltda., which provides a wide range of consulting services, including business, project and asset appraisals, customer prospecting and identification and corporate transactional consulting.

### *Validata Meios de Pagamento Ltda.*

We hold 99.9% of the total share capital of Validata Meios de Pagamento Ltda., which provides data processing services and processes our credit card operations.

## **Our Business Activities**

We distinguish ourselves from our competitors by offering a complete range of products to our customers. Our portfolio of products enables us to meet our customers' diverse needs, generate new business opportunities and strengthen customer loyalty and satisfaction. Our diversified product line assists in protecting us from market volatility and minimising risks. Our treasury department provides support for our core credit operations and supplements our activities by providing our clients with specialised and customised financial products. Our main lines of business are described below.

### *Corporate Lending*

We provide corporate loans to middle market and upper-middle market companies. Our corporate loan products include working capital, trade finance and long-term financing through BNDES onlending transactions. As of December 31, 2012 our total credit portfolio for our corporate segment totaled R\$4,639 million, decrease of 10.9% compared to December 31, 2011.

## Distribution Network

Our operating structure for the middle market and upper-middle market segments currently covers 14 cities located in the major urban and business centres in nine Brazilian states. In line with our business strategy, we plan to consolidate and expand our corporate credit operations. See “Summary—Strategies.”

Our headquarters are located in São Paulo and the other 13 platforms are located in the following cities: Porto Alegre, Curitiba and Londrina in the south of Brazil; Guarulhos, Ribeirão Preto, Campinas, São Bernardo do Campo, Belo Horizonte and Rio de Janeiro in the southeast of Brazil; Salvador and Fortaleza in the northeast of Brazil; and Goiânia and Cuiabá in the Midwest of Brazil.

## Main Products

Our main loan products can be divided into five main categories, as shown in the table below.

	As of December 31,		% Change
	2012	2011	2012/2011
	(In millions of R\$)		
<b>Balance Sheet Information</b>			
<b>Loans to Companies – Total</b> .....	<b>4,416.5</b>	<b>5,072.7</b>	<b>-12.9%</b>
Working capital and overdraft accounts .....	2,513.4	3,091.0	-18.7%
Foreign currency financing .....	571.7	734.0	-22.1%
Guarantees and surety bonds .....	444.2	418.8	6.1%
BNDES/Finame onlendings .....	237.1	494.0	-52.0%
Onlendings pursuant to Resolution 3,884 .....	584.1	250.0	133.6%
Other .....	66.0	84.9	-22.3%

## Working Capital and Guaranteed Accounts

These products are denominated in local currency and designed to help middle market and upper-middle market companies meet their short- and medium-term working capital needs. These loan products are structured as working capital agreements, discounted securities, guaranteed accounts, bank credit bills (“CCBs”), and other instruments.

Working capital transactions are typically guaranteed by a stream of receivables originating from specific contracts or our customers’ rights as creditors. These guarantees are made through the pledge of such receivables and/or creditor rights as collateral in our favour.

Discounted trade bills, cheques and other receivables are loan products on which we deduct the interest falling due for the period in advance. Our discounted credit line, Confirm Fibra (*Confirme Fibra*), uses an electronic receivables confirmation system for trade bill discounting and is designed specifically for customers who act in certain roles in their industry supply chain.

Guaranteed accounts are transactions where credit facilities are extended according to each customer’s credit risk. These facilities can be used for working capital purposes according to the customer’s needs for the duration of their terms. Our revolving credit facilities under the business line Corporate Cheque (*Cheque Empresarial*) are also a part of this group of products.

As of December 31, 2012, working capital and guaranteed accounts accounted for R\$2,513.4 million, or 30.4% of our total credit portfolio.

## Foreign Currency Financing

We provide our customers with the following trade finance products:

- *Advances on Exchange Contracts (“ACCs”)* and *Advances on Accepted Commercial Drafts (“ACEs”)*. Our ACC and ACE loan products can take various forms, including an advance to an exporter (ACC) in *reais* against a foreign exchange contract entered into with us before or after the shipment occurs. Once exports have been shipped, a trade bill is issued which we remit to our correspondent bank in the relevant country for payment in the relevant foreign currency by the importer. In the event of a default by the purchaser, we retain the right to pursue the exporter for the full amount of the credit. ACCs relate to export transactions to be performed and, therefore, are issued prior to shipment. ACEs are linked to export transactions which have been already performed, and are therefore issued after shipment.
- *Import Lending (“FINIMP”)*. FINIMPs generally take the form of either issuing letters of credit, or refinancing letters of credit which have been drawn against following delivery of the goods or the granting of guarantees to foreign banks of the importers’ liability.
- *Prepayment of Exports*. Through export prepayment, we extend, through our Cayman branch, foreign currency loans directly to the exporter in Brazil specifically for the purpose of using the funds in the production of goods and services intended for export.

As of December 31, 2012, trade finance accounted for R\$571.7 million, or 8.1% of our total credit portfolio.

## Guarantees

We provide the following types of guarantees:

- *Bank Surety*. A bank surety is an obligation taken by us pursuant to which we become responsible for the settlement, in part or in full, of an obligation of our client, in case of default by our client. The bank sureties that we offer are denominated in *reais*. In certain circumstances, monetary adjustment indexes, intended to adjust outstanding amounts for inflation, may be applied to the value of our obligations under sureties, depending on the nature of the subject transaction.
- *Stand-by Letters of Credit*. Stand-by letters of credit are directed to companies that require a guarantee of payment for obligations contracted abroad. When we issue a stand-by letter of credit, we guarantee the payment of the obligation taken by our client, and can only be sued if the debtor fails to perform the underlying obligation.

As of December 31, 2012, guarantees accounted for R\$444.2 million, or 5.4% of our total credit portfolio.

## Onlending Transactions under Resolution 3,844 (Former Resolution 63)

Pursuant to Resolution No. 3,844, Brazilian financial institutions may borrow funds abroad for investment in Brazil, including through foreign currency onlendings. These transactions are loans that are linked to the original foreign currency loan, under which the onlending institution transfers funds to an individual or legal entity in Brazil at the same cost as the original underlying foreign currency loan. These transactions are exempt from IOF. As of December 31, 2012, these transactions accounted for R\$584.1 million, or 7.1% of our total credit portfolio.

## Other

Other loan products consist primarily of receivables financing (or “*vendor*”), and payables financing (or “*compror*”). *Vendor* receivables financing consists of a loan that allows a company to sell its goods on credit and be paid on demand. The seller transfers its receivables in respect of the goods sold to us and we, in exchange for a financial operations fee, make payment to the seller on demand, thus financing the buyer’s payment obligations. The seller may jointly assume the buyer’s default risk with us.

*Compror* payables financing consists of a loan offering a limited amount of credit to be used by a corporate client for the acquisition of inventory, raw material, and services. We make payment directly to the suppliers and our clients negotiate payment terms with us that are appropriate in light of their cash flows.

We also maintain a portfolio of loans in respect of which we have acted as agent on behalf of BNDES and its affiliates, for loans extended to customers in targeted economic sectors.

#### *Retail Lending*

We operate in the retail segment through the Credifibra brand which, until November 2012, was a separate operating subsidiary. Currently, our retail business primarily involves: (1) CDC through agreements with retailers, (2) structured CDC, a product intended for large retail chains, and (3) credit cards. Although we are no longer conducting new operations in the vehicle financing segment, we maintain a significant portfolio of vehicle loans. As of December 31, 2012, our retail loan portfolio totaled R\$3,630 million, an increase of 6.0% compared to R\$3,423 million as of December 31, 2011.

#### Distribution Network

Our comprehensive network allows us to take advantage of business opportunities in different geographic regions and specific sectors, and helps to insulate us from geographic or market volatility. We constantly analyse delinquency rates by customer segment and profile. This constant analysis enables us to act quickly when necessary in order to maintain the quality of our credit portfolio.

As of December 31, 2012, our retail offices were located in the Federal District and the following States: Rio Grande do Sul, Santa Catarina, Paraná, São Paulo, Minas Gerais, Rio de Janeiro, Espírito Santo and Bahia. We have commercial partnerships with retailers comprising 8,721 points of sale throughout Brazil.

#### Our Main Products

Our main retail loan products are as follows:

	<u>As of December 31,</u>		<u>% Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012/2011</u>
	(In millions of R\$)		
<b>Retail portfolio – transactions originated by us – total</b> .....	<b>3,576.5</b>	<b>3,367.3</b>	<b>6.2%</b>
Payroll deduction loans .....	379.9	524.1	-27.5%
CDC and Structured CDC (CP).....	853.1	722.7	18.0%
Vehicle portfolio .....	2,343.5	2,120.5	10.5%

#### CDC and Structured CDC (CP)

Direct consumer credit transactions are designed to finance consumer purchases of goods and services from retail entities approved by us. We provide CDC financing in a number of different segments, including furniture and furnishings, tires, building materials, services and travel. We also offer various types of structured CDC products, which are tailored to meet the needs of customers with extensive retail operations, usually large retail chains. Our credit committee analyses each retailer and determines the retailer's maximum credit limit.

As of December 31, 2012, CDC and structured CDC accounted for R\$853.0 million, or 10.3% of our total credit portfolio, representing an increase of 18.0% in terms of volume compared to December 31, 2011. This increase was due to higher transaction volume in 2012 resulting from the positive impact of the economic momentum.



## Credit Cards

Consistent with our strategy of promoting the offer of additional products and continuing to gain the confidence and trust of our clients, we launched our credit card in August 2009 under the Visa brand. This credit card was primarily aimed at professional associations, such as realtors or teachers associations, and retailers and provided a range of benefits, incentives and recognition programmes tailored to this customer segment. The acquisition of Validata in September 2010 further strengthens our plans to grow our operations in the labelled credit card segment and complements our distribution platform for financial products.

## Finance and Treasury

Our finance and treasury area includes our treasury, financial institutions, products and international functions. This area is responsible for managing our liquidity and providing support to our core lending transactions. The finance and treasury area complements our other operations. Through our treasury department, we operate in the foreign exchange markets and offer risk management products to our customers (swaps, hedges, etc.). Our local funding area is responsible for our maintaining relationship with Brazilian banks, institutional investors and individual investors. The sales desk is focused on structuring treasury and financial consulting products for our customers. The international area is responsible for funding our operations in foreign markets, both through the international capital markets and through foreign trade lines.

The tables below show Fibra's outstanding issues abroad and in the domestic market.

<b>Operation Abroad</b>	<b><u>Maturity Date</u></b>	<b><u>Date of Issue</u></b>	<b><u>Principal</u></b>	<b><u>Arranging Bank</u></b>
Eurobond.....	Apr 2013	Apr 2010	U.S.\$200 million	BNP/BES/ HSBC
Eurobond.....	May 2014	May 2011	U.S.\$240 million	Banco Safra
Bilateral Loan/ OPIC.....	Sep 2013	Sep 2008	U.S.\$20 million	Wells Fargo
A Loan.....	Jul 2014	Jul 2007	R\$55.9 million <sup>(1)</sup>	IFC
A Loan.....	Jul 2014	Jul 2010	U.S.\$15 million	IFC
Subordinated Debt via Eurobond issuance .....	Nov 2016	Nov 2009	U.S.\$110 million	Goldman Sachs
Subordinated Debt / DEG.....	March 2016	March 2010	U.S.\$25 million	DEG
Bilateral Loan	Jun 2019	Dec 2009	U.S.\$30 million	Proparco
Subordinated Debt / Stand Alone Note.....	Oct 2021	Oct 2011	U.S.\$22 million	

Notes:—

(1) Equal to U.S.\$30 million.

<b>Domestic Operation</b>	<b><u>Maturity Date</u></b>	<b><u>Date of Issue</u></b>	<b><u>Principal</u></b>	<b><u>Arranging Bank</u></b>
Subordinated Debt.....	Mar 2013	Mar 2008	R\$20 million	BBI

## Distribution Network

Our finance and treasury area operates from our trading desk located at our São Paulo headquarters.

## Main Products

The principal functions of our finance and treasury area are described below.

### Derivatives

We perform derivative transactions to meet our own needs and our customers' needs to reduce exposure to market, currency and interest rate risks. We plan to continue to invest in the development of control systems that focus on risk management. In addition, since most of our derivative transactions are carried out on the BM&F, we are able to significantly reduce counterpart and settlement risk. We manage these risks by establishing set limits and operating strategies.

### Swaps

Swaps are derivative transactions involving an exchange of obligations. They consist of an exchange of income streams derived from rates or indexes applied to certain reference assets or liabilities. We routinely enter into currency exchange swaps and interest rate swaps (between fixed and variable interest rates). We perform derivative transactions for our own account and on behalf of our customers.

### Non-Deliverable Forwards (NDF)

Non-deliverable forwards are derivative instruments that position, hedge or allow arbitrage in connection with a party's risk of exposure to interest rates and/or exchange rates, creating synthetic dollar swaps at pre-fixed rates. We perform these types of derivative transactions for our own account and on behalf of our customers.

### Structured Transactions

In addition to offering financial products, we operate with a high level of expertise and agility, ensuring quality in structuring and customising corporate and retail loan transactions. Our professionals are highly qualified, knowledgeable of their customer base and aware of the risks and cycles of their customers' businesses. Our professionals leverage their experience and expertise in order to create and implement customised structured transactions quickly and efficiently.

## Funding Sources

Our funding sources are diversified with maturities matched to each of our lines of business. We obtain funds in local currency from institutional investors (third-party fund managers, banks, pension funds and insurance companies), corporate entities and individuals by issuing CDBs, CDIs, LCAs, LFs and DPGEs. We consider the average term for such transactions to be appropriate for all of our credit operations. As of December 31, 2012, our balance of local funding was R\$6.8 million. We also fund our operations through the senior and subordinated international debt markets and obtain funds that are suitable to our retail loan portfolio.

Our sources of funding are diversified and are matched to each of our classes of assets in order to avoid funding gaps and maintain liquidity. As of December 31, 2012, 78.0% of our funding was from domestic sources, consisting primarily of deposits and investments. These deposits and investments were issued through CDBs, CDIs and DPGEs. As of December 31, 2012, CDBs, CDIs and DPGEs represented 56.7% of our total funding. Other domestic sources of funds included loan obligations and onlending of BNDES funds (4.2%) and the issuance and acceptance of reais denominated securities, mainly LFs and LCAs (15.4%). On the same date, 22.0% of our funding was from foreign sources and was composed of trade finance and other credit lines with correspondent banks (7.1%), the issuance of securities (10.8%) and the issuance of subordinated debt (3.8%). Our main source of funds for our credit operations is time deposits. We fund these operations through a broad mix of depositors in *reais* (consisting of 49.3% institutional investors, 15.5% corporations, 10.1% private individuals and 25.1% financial institutions).

The table below shows our breakdown of funding sources at the dates indicated:

	As of December 31,			
	2012		2011	
	(In thousands of R\$)	%	(In thousands of R\$)	%
<b>Local</b> .....	<b>6,838,390</b>	<b>78.0%</b>	<b>6,945,772</b>	<b>76.2%</b>
Demand deposits in R\$ .....	97,437	1.1%	173,004	1.9%
Interbank deposits .....	380,334	4.3%	553,785	6.1%
Time deposits in R\$.....	4,583,129	52.4%	4,994,961	54.7%
Funds obtained in the open market.....	21,779	0.2%	23,837	0.3%
Funds from acceptance and issuance of securities – R\$	1,348,500	15.4%	429,247	4.7%
Local onlending – official institutions.....	370,688	4.2%	579,664	6.4%
Subordinated debt – R\$ .....	36,523	0.4%	191,274	2.1%
<b>International</b> .....	<b>1,928,713</b>	<b>21.9%</b>	<b>2,167,740</b>	<b>23.8%</b>
Demand deposits in US\$.....	4,706	0.1%	5,271	0.1%
Time deposits in US\$.....	21,682	0.2%	26,209	0.3%
Funds from acceptance and issuance of securities – US\$	946,355	10.8%	888,578	9.8%
Borrowings – US\$.....	620,018	7.1%	958,268	10.4%
Subordinated debt – US\$.....	335,952	3.8%	289,414	3.2%
<b>Total funds</b> .....	<b>8,767,103</b>	<b>100.0%</b>	<b>9,113,513</b>	<b>100.0%</b>

#### *Time Deposits – CDBs and DPGEs*

Time deposits are certificates of bank deposit issued to our customers. We participate actively in this market and it is our principal source of funds. As of December 31, 2012, deposits obtained through the issuance of CDBs and DPGEs, on a consolidated basis, totaled R\$4.6 billion, and represented 52.4% of our total funding, compared to R\$5.0 billion, or 54.7% of our total consolidated funding, as of December 31, 2011. Our major investors are corporate clients and institutional investors, such as pension funds and mutual funds.

On April 1, 2009, the CMN created DPGEs. DPGEs are deposits which have characteristics defined by Resolutions 3,692/09, 3,717/09 and 3,729/09 of the CMN, without the issuance of a certificate, with accounting rules specified under Circular-letter 3,391/09 from the Central Bank. The DPGE is guaranteed by the FGC, with a limit by investor of up to R\$20.0 million (including total principal and interest). The DPGE has been conceived for final borrowers, individuals or corporations, which normally operate with larger volumes of resources. Institutions that manage third party resources must make investments in DPGEs directly in the name of their clients.

Our funding strategy is based in part on the issuance of time deposits with remuneration linked, in large part, to the CDI, plus a spread. We also issue time deposits with fixed rates and time deposits linked to price indexes, such as the General Market Price Index (“IGPM”), or the Expanded Consumer Price Index, or IPCA. Despite the high level of competition existing among banks to obtain time deposits, we have been able to raise funds consistently by issuing CDBs and DPGEs.

We obtain time deposits offshore through our Cayman Islands branch. As of December 31, 2012, R\$21.7 million of our total time deposits represented time deposits and certificates of deposit issued by offshore branches. The interest rates for time deposits made by our Cayman Islands branch are determined according to market conditions and prevailing onshore and offshore interest rates.

As of December 31, 2012, we issued time deposits held by our Bank in the form of time deposits, to clients in the following proportion: 12.0% to individuals (compared to 13.0% as of December 31, 2011), 19.5% to non-financial companies (compared to 26.1% as of December 31, 2011), 1.5% to financial institutions (compared to 1.9% as of December 31, 2011) and 67.0% to institutional investors (compared to 58.9% as of December 31, 2011), such as investment funds, foundations, pension funds and insurance companies.

The table below presents a breakdown of our consolidated CDB and DPGEs portfolio, by investor profile, for the periods indicated:

	As of December 31,	
	2012	2011
	(in percentage rates)	
Individuals .....	12.0%	13.0%
Corporate entities .....	19.5%	26.1%
Financial institutions .....	1.5%	1.9%
Qualified investors .....	67.0%	58.9%
<b>Total .....</b>	<b>100%</b>	<b>100%</b>

The table below presents a breakdown of our consolidated CDB and DPGE portfolio by maturity as of December 31, 2012:

Periods	Time Deposits (In thousands of R\$)	% of the Total
Up to 30 days .....	187,916	4.1%
From 31 to 60 days .....	82,856	1.8%
From 61 to 90 days .....	230,109	5.0%
From 91 to 180 days.....	998,036	21.%
From 181 to 360 days.....	707,090	15.%
Over 360 days .....	2,398,804	52.%
<b>Total for 2012 .....</b>	<b>4,604,811</b>	<b>100.00%</b>

#### *Interbank Deposits – CDIs*

Interbank deposits comprise CDIs, which are certificates issued to financial institutions in the interbank market. The prevailing interest rate in the CDI market effectively functions as a daily benchmark for interest rates in local currencies.

CDIs help us meet our funding needs for financing our business operations. As of December 31, 2012, we had R\$380.3 million in outstanding CDIs, which represented 4.3% of our total funding in *reais*. In addition to using the CDI market for cash management purposes, we buy CDIs from other Brazilian financial institutions. We apply the same credit criteria to CDI purchases as we do to other loans we make.

#### *Letras Financeiras (LFs) & Letras de Crédito do Agronegócio (LCAs)*

Provisional Measure (*Medida Provisória*) No. 472, enacted by the Brazilian government on December 15, 2009, later converted into Law No. 12,249 on June 11, 2010, among other items, created a long-term debt security (*letra financeira*, or “LF”), enabling a new category of fund raising by Brazilian financial institutions. On February 25, 2010 the CMN issued Resolution No. 3,836 (CMN Resolution No. 3,836) regulating the issuance of LFs. Pursuant to CMN Resolution No. 3,836, LFs must have a minimum nominal amount of R\$300,000 and a minimum tenor of

24 months. LFs may be publicly offered in the Brazilian capital markets in accordance with applicable CVM regulations. On August 23, 2012, the CMN issued Resolution No. 4,123, which amends and consolidates rulings on the issuance of LFs by Brazilian financial institutions and is effective as from November 1, 2012.

The *Letra de Crédito Agrícola* (LCA) is a fixed income investment the proceeds of which are intended to promote agribusiness. The LCA has exemption from income tax on income for individuals and exemption of tax on financial transactions (IOF) both for individual and for companies. Another important feature of LCA is the maturity for redemption. Unlike many fixed income investments, ensuring daily liquidity, investment in LCA can establish a longer application period

#### *Funds from Acceptance and Issuance of Securities under the MTN Programme – R\$ and U.S.\$*

We issue eurobonds and certificates of deposit in the international capital markets. As of December 31, 2012, we had three series of U.S. dollar-denominated senior notes and one series of U.S. dollar-denominated subordinated notes outstanding under our medium-term note programme. As of December 31, 2012, the total outstanding principal balance of these notes was U.S.\$1,175 million.

#### *Borrowings*

As of December 31, 2012, our outstanding principal balance of foreign currency loans totaled R\$620 million. These loans consist primarily of credit facilities granted by foreign correspondent banks and financial transactions with political and commercial risk coverage provided by IFC.

We use credit facilities from correspondent banks to finance our customers' foreign trade transactions. These facilities are in the form of loans or international guarantees. We obtain these funds through credit facilities from 35 correspondent banks.

In 2009, we agreed a U.S.\$30.0 million bilateral credit facility with the French development agency *Société de Promotion et de Participation pour la Coopération Economique* ("Proparco") as lender with a term of ten years.

In July 2010 we entered into an agreement for a syndicated "A/B Loan," consisting of (i) an "A Loan" with a four year term in the amount of U.S.\$15 million provided by IFC, which was fully prepaid in July 2012, and (ii) a "B Loan" with a two year term, comprising two tranches in the amounts of U.S.\$96 million and EUR20 million, which was syndicated among 11 banks. The B loan was repaid in full at maturity in July 2012.

#### *Subordinated Debt*

Subordinated debt is a funding instrument by which the investor's right to payment is subordinated to the issuer's secured and senior creditors. Banks typically issue subordinated debt in order to receive Central Bank approval to classify the debt as Tier 2 Capital for the purposes of the Basel Accord.

In March 2006, we issued subordinated notes in the principal amount of U.S.\$30 million with a term of 10 years, subject to a five-year call which was exercised in March 2011. In March 2008, we issued a subordinated CDB in the principal amount of R\$20.0 million, with a term of five years and placed entirely with institutional investors. These obligations were repaid on maturity in 2012.

In October 2009 we updated our medium-term note programme to allow us to issue subordinated notes in addition to senior notes and, on November 6, 2009, issued subordinated notes, which we subsequently approved by the Central Bank as Tier 2 capital, in the amount of U.S.\$110,000,000 with an interest rate of 8.50% and maturity in November 2016.

On February 3, 2010 we entered into a U.S.\$25.0 million credit facility with DEG, with a six-year term. The DEG indebtedness qualifies as our Tier 2 subordinated debt.

On October 28, 2011, we issued U.S.\$22.0 million of subordinated notes with a ten-year term, which were subscribed by a private investor.

### **Capital Ratios and Minimum Capital Requirements**

Pursuant to CMN Resolution No. 2,099/94, Brazilian banks are required to ensure their capital adequacy on the basis of degree of portfolio risk, under a methodology developed in July 1988 by the Basel Accord and implemented with modifications determined by the Central Bank. The Basel Accord establishes capital adequacy requirements for banks based on net equity, adjusting assets by risk. The weighted risk capital index required of all banks in Brazil is currently 11.0% of risk-weighted assets. See “Industry—Principal Limitations and Restriction to the Exercise of Certain Activities.”

Our capital adequacy ratio as of December 31, 2012, taking into account our issuance of subordinated debt, was 13.2%, compared to 13.6% as of December 31, 2011.

### **Risk Management**

The primary goal of our risk management policies is to protect the Bank’s capital. This goal is in line with the core principles behind our operating policy, which is to prioritise caution over high returns. We believe our systems and internal controls are structured appropriately based on our operations. We classify our categories of risk as (i) market risk, (ii) liquidity risk, (iii) operating risk and (iv) credit risk.

#### ***Market Risk Management and Control***

Market risk refers to the possibility of loss due to unfavourable trends in market rates and prices that could impact our positions given the mismatches of asset and liability portfolios. Such a loss typically occurs as a result of maturity gaps and currency exposures.

We are committed to continuously improving our area of risk management as well as being up to date with international best practices. Market risk management is handled by observation and control of its risk factors, i.e., market elements that can impact the market value of a portfolio, for example, fluctuations in interest rates and foreign exchange rates.

The key function of our market risk area is to identify, measure and report any potential risks of changes in market prices of financial instruments which can directly or indirectly affect the values of our assets and liabilities. This area is also responsible for obtaining the necessary market information for analysis and for decision making. The market risk area uses a set of controls such as Value at Risk (VaR) with a 99% confidence interval and “Crash Scenario” analysis to assess the maximum loss potential of a given portfolio in extreme scenarios. The market risk area also tests the system on a regular basis, and uses an on-line tool for monitoring accumulated losses.

Our risk management policy is conservative, and is determined by our Market Risk Committee. The Market Risk Committee is comprised of our Executive Officers and managers from research, risk, audit and treasury areas. This committee meets once a month to reassess its parameters, VaR limits and stress scenarios based on prevailing changes in the economic and market environment. As of December 31, 2012, our VaR was equivalent to 0.2% of our equity.

#### ***Liquidity Risk Management and Control***

We rigorously control our liquidity risk in order to maintain liquidity levels suited to our asset and liability profiles. We have implemented the following liquidity risk management tools:

- *Objective Cash Control.* We maintain a level of cash considered suitable for our lending and funding activities. Our asset and liability management policies are geared with reference to this level, which is monitored on a daily basis. The objective cash level is set by ALCO. ALCO meets at least once a

month and defines our asset and liability strategies for upcoming periods. On December 31, 2012, our minimum liquidity reserve was approximately 80% of our net equity.

- **Liquidity Risk Control.** Our liquidity level is monitored daily by the cash control and management area, which monitors our profile of maturities until our asset and liability portfolios are exhausted. This maturity profile is presented to ALCO. ALCO considers alternatives in respect of the minimum level of cash to be maintained in order to manage the risk exposure of our assets and liabilities. We also use the capital adequacy ratio and market conditions as parameters for liquidity control and for triggering our liquidity contingency plan, as described below.
- *Liquidity Contingency Plan.* The liquidity contingency plan is a management tool that establishes the actions and measures to be taken whenever a short-term liquidity projection indicates levels that are lower than the defined minimum limit. In the case of a lack of resources and financial market crises, our liquidity contingency plan offers the following alternatives: (i) external funding (through our strategic foreign shareholder); (ii) credit assignments; (iii) funding from companies within the Vicunha Group; (iv) reduction or moratorium on lending until liquidity is restored; and (v) sale of private securities portfolio.
- *Application of stress scenario.* In order to assess the behaviour of our financial instruments given adverse scenarios, simulations are carried out allowing the liquidity risk area to forecast possible significant cash outflows. These simulations are carried out on a daily basis and reported monthly in ALCO.

#### *Operational Risk Management and Control*

Operational risk consists of risks due to flaws, deficiencies or inadequacy of internal processes, personnel and systems, or external events. This includes the legal risk related to the inadequacy or deficiency in contracts entered into by the Bank.

In order to mitigate this type of risk and to comply with global market practices and Brazilian financial market regulations, we established an internal control structure that helps ensure consistent updating in the mapping of risks and controls, as well as the capture of information related to any flaw or loss in connection with an operational risk. This structure is composed of employees comprising the operational risk compliance area and also of compliance agents located in each area of the Bank. Such a structure helps to foster a culture of compliance and risk control throughout the Bank.

This structure also includes an internal control system whereby periodic evaluations are performed on our activities and processes. This system identifies inherent risks and evaluates the effectiveness of the controls being used. It also implements action plans to mitigate any risks identified and improve controls. Through ongoing management and control work, the operational risk management structure is taking the necessary measures to meet the recommendations of the Basel II Accord as set out by the Central Bank. We currently employ the “Alternative Standardised” model for the allocation of capital, and our goal is to qualify for the “Advanced” capital allocation model, in order to optimise capital allocation.

#### *Credit Risk Management and Control*

All applications submitted, whether for corporate or retail loan transactions, have their risk assessed according to internal procedures established for each segment.

Assessments of corporate loan transactions are focused on the specific company’s cash-generating capacity and on the risk factors associated with the transaction. This assessment involves a technical analysis of the customer’s ability to honour its commitments and include on-site visits by our employees. The results and conclusions of this analysis are presented to our relevant committees. This process may involve all executive levels, depending on the degree of complexity of the decisions being made. Our decisions are not made solely based on the level of collateral offered, as such levels are regarded as ancillary to the risk incurred. In addition, we rigorously manage the collateral

over which we take security, using proprietary systems and the expertise of professionals widely experienced in the business.

In granting loans our basic requirement is that borrowers have adequate cash flow to conduct their normal business operations and that they have the ability to access lines of credit. We have credit risk controls that allow us to monitor the quality of our portfolio, anticipating possible problems our clients may encounter.

Retail loan transactions, which are submitted and approved over the internet through our website, are analysed by our automated system in accordance with the fixed parameters of our retail loan model. Our systems are carefully designed to handle loan applications according to various internal filters based on historical statistical information, credit policies, scoring tools, and fraud prevention tools. Our systems are capable of performing risk assessments by region, segment and by point of sale. Our systems include a thorough series of required approvals, where certain applications are earmarked for manual credit analysis and evaluated according to the established internal guidelines. We believe that our controls and processes allow us to assess the credit quality of our customers in a secure and efficient manner. Our processes and systems also help to ensure that transactions are properly executed, thus contributing to the efficiency of our internal controls.

In addition, in our global and credit committees periodically assess our credit portfolio, monitoring credit limits, defaults, risk exposure and group and sector concentration, and performing stress and benchmark analyses.

### **Analysis of Our Loan Portfolio**

#### *Concentration*

As of December 31, 2012, our 50 largest customers accounted for R\$1,127.3 million (13.6% of our total loan portfolio), compared to R\$1,132.4 million as of December 31, 2011 (13.1 % of our total loan portfolio). Our largest individual customer as of December 31, 2012 accounted for 1.0% of our total credit portfolio.

The table below sets forth the concentration of our credit portfolio for the periods shown. Percentages reflect the value of our transactions compared to the total amount of our credit portfolio.

	<b>Year ended December 31,</b>			
	<b>2012</b>		<b>2011</b>	
	<b>R\$</b>	<b>%</b>	<b>R\$</b>	<b>%</b>
	<b>(in thousands of R\$, except percentages)</b>			
10 largest debtors .....	409,558	5.0%	419,298	4.9%
50 largest debtors .....	1,127,318	13.6%	1,132,377	13.1%
100 largest debtors .....	1,708,627	20.7%	1,746,184	20.3%

#### *Business Sectors*

In order to take advantage of market opportunities, we do not set any limits for our loan transactions based on sector. We conduct monthly evaluations of our global risk based on a breakdown of the information relating to the mix of our credit portfolio. These breakdowns, which include an analysis of the ongoing credit portfolio by economic sector, are also used by the members of our management in strategic decision making.



The following table sets forth the composition of our credit portfolio by borrower sector as of December 31, 2012 and 2011:

	As of December 31,			
	2012		2011	
	R\$	%	R\$	%
	(in thousands of R\$, except percentages)			
Industry .....	1,800,566	21.8%	2,105,093	24.4%
Commerce .....	1,321,772	16.0%	1,396,245	16.2%
Service.....	564,024	6.8%	911,259	10.6%
Rural.....	206,437	2.5%	175,347	2.0%
Housing .....	381,510	4.6%	396,048	4.6%
Public sector .....	1,853	0.0%	3,894	0.0%
Financial intermediaries .....	324,190	3.9%	408,258	4.7%
Individuals.....	3,668,251	44.4%	3,235,273	37.5%
<b>Total portfolio<sup>(1)</sup> .....</b>	<b>8,268,603</b>	<b>100.0%</b>	<b>8,631,417</b>	<b>100.0%</b>

Notes:—

- (1) As of December 31, 2012, our total credit portfolio consisted of loans granted by us in the amount of R\$7,824,400 thousand and sureties and guarantees provided by us in the amount of R\$444,203 thousand. As of December 31, 2011, our total credit portfolio consisted of loans granted by us in the amount of R\$8,212,578 thousand and sureties and guarantees provided by us in the amount of R\$418,839 thousand.

#### Loan Transaction Terms

The following table provides a summary of the term of the loans in our credit portfolio as of December 31, 2012 and 2011.

	As of December 31,			
	2012		2011	
	R\$	%	R\$	%
	(in thousands of R\$, except percentages)			
Overdue <sup>(1)</sup> .....	225,192	2.7%	273,099	3.2%
Falling due within 30 days .....	1,061,526	12.8%	1,279,631	14.8%
Falling due within 31 to 60 days .....	866,610	10.5%	928,339	10.8%
Falling due within 61 to 90 days .....	654,166	8.0%	892,122	10.3%
Falling due within 91 to 180 days .....	1,764,506	21.3%	1,635,536	18.9%
Falling due within 181 to 360 days .....	1,710,826	20.7%	1,558,890	18.1%
Falling due in more than 360 days .....	1,985,777	24.0%	2,063,800	23.9%
<b>Total portfolio<sup>(2)</sup> .....</b>	<b>8,268,603</b>	<b>100.0%</b>	<b>8,631,417</b>	<b>100.0%</b>

Notes:—

- (1) Refers to the overdue installments of one day or more.  
(2) As of December 31, 2012, our total credit portfolio consisted of loans granted by us in the amount of R\$7,824,400 thousand and sureties and guarantees provided by us in the amount of R\$444,203 thousand. As of December 31,

2011, our total credit portfolio consisted of loans granted by us in the amount of R\$8,212,578 thousand and sureties and guarantees provided by us in the amount of R\$418,839 thousand.

The following table provides a summary of consolidated loans by risk classification and related allowance as of December 31, 2012:

Risk Levels	As of December 31, 2012		
	Corporate Transactions	Retail Transactions	Total Transactions
AA.....	375,549	76,518	452,067
A.....	1,361,567	2,794,908	4,156,475
B.....	2,023,565	199,008	2,222,573
C.....	212,050	159,917	371,967
D.....	101,974	97,782	199,756
E.....	11,198	71,397	82,595
F.....	9,035	54,446	63,481
G.....	26,215	43,212	69,427
H.....	72,796	133,263	206,059
<b>Total Portfolio – loans granted.....</b>	<b>4,193,949</b>	<b>3,630,451</b>	<b>7,824,400</b>
Sureties and guarantees provided.....	444,203	—	444,203
<b>Total.....</b>	<b>4,638,152</b>	<b>3,630,451</b>	<b>8,268,603</b>

#### *Allowance for Loan Losses*

Our allowance for loan losses follows the criteria established by the Central Bank under CMN Resolution 2,682, of December 21, 1999.

According to Resolution 2682, beginning on (a) March 31, 2000, for loan transactions exceeding R\$500,000; and (b) July 31, 2000, for loan transactions between R\$50,000 and R\$500,000, financial institutions are required to rate loan transactions, according to their relevant credit risk level, as AA, A, B, C, D, E, F, G, or H. Each risk level is assigned a specific allowance volume for losses.

These credit ratings are determined according to the criteria established by the Central Bank, and relate to (i) the debtor's or any guarantor's economic or financial situation, level of indebtedness, ability to generate income, cash flow, management and quality of controls, punctuality/lateness in payments, business sector, contingencies, and credit limits; and (ii) the characteristics of the transaction, including the assets given as collateral, and total credit amount.

Loan transactions linking a customer to a particular business sector must be analysed in light of the customer's individual loan transactions, as well as similar transactions within that sector which represent a greater credit risk to the financial institution in question. Loan transactions of up to R\$50,000 are rated either according to the financial institution's own evaluation method or according to the number of late-payment days for such transaction, whichever is stricter. Income from loan transactions overdue for more than 60 days, regardless of risk level, is only recognised as revenue upon being actually received. Transactions rated as level H (100% allowance) maintain this rating for six months. After six months these transactions are written off against the existing allowance and monitored for five years in a separate account, no longer being included on the balance sheet. Loan renegotiations are kept at least at the same level as previously rated. Renegotiated loan transactions that have been written off against an allowance and kept in memorandum accounts are rated as level H. Any funds derived from loan renegotiations are recognised as revenues only upon actual receipt. Our total renegotiated loans in the year ended December 31, 2012 was R\$463.3 million as compared to the total recovered credits written off during previous periods of R\$49.6 million.

As a result of these criteria, our credit policy tends to rate customers conservatively, particularly in the case of medium-size businesses. In this way, the risk of losses in our loan transactions is accurately reflected. We believe that our volume of transactions rated as risk level C tends to be greater than that of our competitors.

While our non-performing loans are lower than average levels for Brazilian banks, we nevertheless experienced a sharp increase in non-performing loans and our allowance for loan losses in 2011 and 2012 reflecting (i) macroeconomic factors affecting both the middle-market and consumer segments; (ii) the effect of macro-prudential measures implemented by the Central Bank and directed mainly to vehicle finance (which, although generation of vehicle finance transactions has been terminated, continues to represent a significant part of our consumer portfolio); (iii) specific corporate clients; (iv) higher indebtedness of individuals; and (v) government policies (tax breaks) that incentivise the sales of new vehicles thereby affecting the price of used ones.

Our allowance for doubtful loans increased by 8.7% from R\$339.2 million for the year ended December 31, 2011 to R\$368.8 million for the year ended December 31, 2012. The increase reflected continued weakness in the consumer segment, particularly in relation to vehicle finance transactions.

Our percentage of consolidated non-performing loans to the total credit portfolio increased from 2011 on due to the substantial growth of our retail operations and critical deterioration of the credit market in Brazil.

The following table presents a breakdown of the total allowance for loan losses in respect of retail operations as of the dates shown:

Risk levels	% Minimum	As of December 31, 2012						
		Performing loans		Non-performing loans			Total loans	Total provisions
		R\$	Provisions	Past due	Not yet due	Provisions		
AA.....	0.0%	76,518	–	–	–	–	76,518	–
A.....	0.5%	2,794,908	13,975	–	–	–	2,794,908	13,975
B.....	1.0%	4,689	47	17,278	177,041	1,943	199,008	1,990
C.....	3.0%	2,385	71	19,506	138,026	4,726	159,917	4,797
D.....	10.0%	1,689	169	17,668	78,425	9,609	97,782	9,778
E.....	30.0%	1,515	454	17,452	52,430	20,965	71,397	21,419
F.....	50.0%	402	201	15,424	38,620	27,022	54,446	27,223
G.....	70.0%	384	269	14,301	28,527	29,980	43,212	30,249
H.....	100.0%	731	731	60,148	72,384	132,532	133,263	133,263
Total in 2012.....		<u>2,883,221</u>	<u>15,917</u>	<u>161,777</u>	<u>585,453</u>	<u>226,777</u>	<u>3,630,451</u>	<u>242,694</u>
% Portfolio.....		34.8%		2.0%	7.2%		43.8%	
Total in 2011.....		<u>2,789,310</u>	<u>12,855</u>	<u>131,940</u>	<u>446,958</u>	<u>142,109</u>	<u>3,368,208</u>	<u>154,694</u>
% Portfolio.....		28.6%		0.8%	2.5%		31.9%	

The following table presents a breakdown of the total allowance for loan losses in respect to wholesale operations as of the dates shown:

As of December 31, 2012									
Risk levels	%		Performing Loans		Non-performing Loans		Total loans	Additional Provisions	Total Provisions
	Minimum	Portfolio	Provisions	Past due	Not yet due	Provisions			
AA .....	0.0%	375,549	–	–	–	–	375,549	–	–
A .....	0.5%	1,361,567	6,808	–	–	–	1,361,567	–	6,808
B .....	1.0%	2,013,995	20,140	2,947	6,623	96	2,023,565	8,365	28,601
C .....	3.0%	182,222	5,466	12,061	17,767	895	212,050	2,559	8,920
D .....	10.0%	94,628	9,463	1,557	5,789	735	101,974	–	10,198
E .....	30.0%	3,779	1,134	1,077	6,342	2,226	11,198	–	3,360
F .....	50.0%	3,899	1,950	910	4,226	2,568	9,035	–	4,518
G .....	70.0%	18,334	12,834	2,449	5,432	5,517	26,215	–	18,351
H .....	100.0%	17,400	17,400	42,414	12,982	55,396	72,796	–	72,796
Total in portfolio									
Loans Extend .....		<u>4,071,373</u>	<u>75,195</u>	<u>63,415</u>	<u>59,161</u>	<u>67,433</u>	<u>4,638,152</u>	<u>10,924</u>	<u>153,552</u>
Bonds and guarantees provided .....		<u>444,203</u>					<u>444,203</u>		
Total in 2012 .....		<u>4,515,576</u>	<u>75,195</u>	<u>63,415</u>	<u>59,161</u>	<u>67,433</u>	<u>4,638,152</u>	<u>10,924</u>	<u>153,552</u>
% Portfolio .....		54.6%		0.8%	0.7%		56.1%		
Total in 2011 .....		<u>4,670,928</u>	<u>93,083</u>	<u>118,367</u>	<u>55,067</u>	<u>138,534</u>	<u>4,844,362</u>	<u>15,844</u>	<u>247,461</u>
% Portfolio .....		54.1%		1.4%	0.6%		56.1%		

The following table presents a breakdown of the total allowance for loan losses as of the dates shown:

As of December 31, 2012									
Risk levels	%		Performing Loans		Non-performing Loans		Total loans	Additional Provisions	Total Provisions
	Minimum	Portfolio	Provisions	Past due	Not yet due <sup>(1)</sup>	Provisions			
AA .....	0.0%	452,067	–	–	–	–	452,067	–	–
A .....	0.5%	4,156,475	20,783	–	–	–	4,156,475	–	20,783
B .....	1.0%	2,018,684	20,187	20,225	183,664	2,039	2,222,573	8,365	30,591
C .....	3.0%	184,607	5,537	31,567	155,793	5,621	371,967	2,559	13,717
D .....	10.0%	96,317	9,632	19,225	84,214	10,344	199,756	–	19,976
E .....	30.0%	5,294	1,588	18,529	58,772	23,190	82,595	–	24,778
F .....	50.0%	4,301	2,151	16,334	42,846	29,590	63,481	–	31,741
G .....	70.0%	18,718	13,103	16,750	33,959	35,497	69,427	–	48,600
H .....	100.0%	18,131	18,131	102,562	85,366	187,928	206,059	–	206,059
Total portfolio - Loans Extended		<u>6,954,594</u>	<u>91,112</u>	<u>225,192</u>	<u>644,614</u>	<u>294,209</u>	<u>7,824,400</u>	<u>10,924</u>	<u>396,245</u>
Bonds and guarantees provided .....		<u>444,203</u>					<u>444,203</u>		
Total in 2012 .....		<u>7,398,797</u>	<u>91,112</u>	<u>225,192</u>	<u>644,614</u>	<u>294,209</u>	<u>8,268,603</u>	<u>10,924</u>	<u>396,245</u>
% portfolio .....		89.5%		2.7%	7.8%		100.0%		
Total in 2011 .....		<u>7,879,085</u>	<u>105,938</u>	<u>250,307</u>	<u>502,025</u>	<u>280,643</u>	<u>8,631,417</u>	<u>15,844</u>	<u>402,425</u>
% portfolio .....		91.3%		2.9%	5.8%		100.0%		

The following table provides a summary of loan losses, along with asset quality ratios for the periods indicated below.

	Year ended December 31,	
	2012	2011
	(In millions of R\$, except percentages)	
<b>Total credit exposure<sup>(1)</sup></b> .....	<b>8,268.6</b>	<b>8,631.4</b>
<b>Corporate loans</b> .....	4,638.1	5,263.2
<b>Retail loans</b> .....	3,630.5	3,368.2
<b>Loans more than 90 days overdue<sup>(2)</sup></b> .....	<b>375.1</b>	<b>305.4</b>
Loans more than 90 days overdue – Corporate .....	75.8	121.1
Loans more than 90 days overdue – Retail .....	299.3	184.3
<b>Allowance for doubtful accounts balance</b> .....	<b>396.2</b>	<b>402.4</b>
Credit allowances – corporate segment .....	153.5	247.4
Credit allowances – retail segment .....	242.7	155.0
<b>Default on total portfolio<sup>(3)</sup></b> .....	<b>4.5%</b>	<b>3.5%</b>
Default in corporate segment .....	0.9%	1.4%
Default in retail segment .....	3.6%	2.1%
<b>Credit allowances on total portfolio</b> .....	<b>4.8%</b>	<b>4.9%</b>
Credit allowances – corporate segment .....	1.9%	3.0%
Credit allowances – retail segment .....	2.9%	1.9%

Notes:—

- (1) As of December 31, 2012, our total credit portfolio consisted of loans granted by us in the amount of R\$7,824,400 thousand and sureties and guarantees provided by us in the amount of R\$444,203 thousand. As of December 31, 2011, our total credit portfolio consisted of loans granted by us in the amount of R\$8,212,578 thousand and sureties and guarantees provided by us in the amount of R\$418,839 thousand.
- (2) Considering all loans, including currently due and overdue portions.
- (3) Percentage of loans overdue for more than 90 days.

## Internal Audits

Internal audits provide our management with an assessment of our processes and the relevant risks applicable to our business cycles. Our internal audit area reports directly to the Board of Directors in order to maintain an appropriate level of independence and objectivity.

Our internal audit area uses a systematic approach to assess and improve the effectiveness of our risk management processes, internal controls, corporate governance and information security processes. This area also takes into account our degree of exposure to risks, our latest audit results and the accuracy of information reporting, among other factors.

## Internal Controls and Compliance

The Internal Controls and Compliance System adopted by the Bank is an important instrument for managing our risks and ensuring strong corporate governance standards.

Broadly speaking, the Internal Controls and Compliance System is a structured process that includes the Board of Directors, its advisory committees, the Executive Officers, managers, as well as many of those who work with the Bank, in order to achieve a more secure and efficient conduct of business in line with regulatory requirements.

We have assessed the flows in our processes and systems and routinely apply tests to check the effectiveness of existing controls, with the full involvement of the various appropriate divisions, the internal control and anti-money laundering committees, and our external auditors. This work is aligned with the Committee of Sponsoring

Organisations of the Treadway Commission and the Control Objectives for Information and Related Technology, which cover business and technology aspects of internal controls.

Our compliance department is designed to manage operational, legal, anti-money laundering and reputational risks. It provides general support to our business through procedures relating to (i) money laundering and know your customer policies; and (ii) internal controls and operational risks management.

*(i) Money Laundering Prevention and Know Your Customer Policies*

We have taken a series of steps to combat corruption and the use of the financial system for illegal transactions, including terrorism. To prevent the Bank's operations from being used for those ends, we maintain a specific programme which includes policies, procedures, and systems for the control and prevention of money laundering and combating the financing of terrorism.

Our "Know Your Customer" policy establishes training, processes and systems for controlling and monitoring our clients and their respective operations in order to permit the timely identification of atypical situations that, once analysed by a team of experts, are sent for evaluation by the anti-money laundering committee that evaluates whether to forward the case to the competent authorities and whether or not the transaction was completed. The commercial area has complete autonomy to reject deals and operations they believe to be suspicious or atypical. The committee meets at least monthly to assess the progress of work and take any steps necessary to maintain the effort, in line with international best practices for the prevention of money laundering and combating the financing of terrorism.

These procedures are aimed at obtaining information on the business activities and sources of assets which are acquired by us. They are designed to ensure that we do not do business with any individual or corporate entity whose identity cannot be confirmed, who fails to provide all necessary information or has provided false or inconsistent information that cannot be confirmed.

In the last two years, we have implemented significant improvements such as specialised tools to research clients, detect atypical transactions and a client classification system based on client risk profile, which cover all relevant areas of anti-money laundering. In addition, we are continually adjusting and enhancing our controls and systems to prevent money laundering and combat the financing of terrorism.

*(ii) Internal Controls and Operating Risks*

Our internal controls are designed to ensure compliance with applicable laws and regulations and our internal policies. This system is in place to maintain high standards of security and credibility in respect of our business and activities, and also to identify, measure, assess, monitor and manage operating risk in order to minimise our exposure to relevant risks. In the last year, we improved the monitoring system of the main controls of the finance and treasury area and recommended the implementation of additional controls when necessary.

*(iii) Information Security*

Through a continuous process of analysis, planning, implementation and maintenance, we work to ensure the confidentiality, integrity and availability of our information. All areas of the Bank adopt information security policies, including the business areas.

*(iv) Compliance with Regulations*

Our institution focuses on establishing an effective system for ensuring compliance with legal regulations and internal policies. To this end, it has a daily monitoring system that ensures the timely release of the norms issued by the regulating entities, as well as the compliance of our processes with these norms.

## **Competition**

The Brazilian financial services market is highly competitive, and we face significant competition in all our main business areas. Over the last several years, consolidation of the Brazilian banking market has also increased. For example, in November 2008, Banco Itaú and Unibanco merged their businesses, consolidating a significant presence in our marketplace. In addition Banco do Brasil agreed to acquire Nossa Caixa in November 2008 and entered into strategic partnership with Banco Votorantim in January 2009 and, in January 2011, Banco BTG Pactual S.A. agreed to acquire Banco Panamericano. The acquisition of competitors by large banks and the increasing number of banks, particularly mid-sized banks, that are public has resulted in an increasingly competitive environment in the Brazilian banking industry and the main segments in which we operate. Our main competitors in the retail segment, as well as in the middle market segment, have been primarily mid-sized banks (some of which have gone public) and some large retail banks. See “Risk Factors—Risks Relating to Us and the Brazilian Banking Industry—Growing competitiveness in the Brazilian banking industry may negatively affect our business.”

In the middle market and agri-business segments, our competitors include a majority of the large Brazilian banks and medium-size banks specialising in these segments, such as Banco Safra S.A., Banco Industrial e Comercial S.A. – Biebanco, Banco Daycoval S.A., Banco Pine S.A. and Banco ABC Brasil S.A.

Our main competitors in CDC products are banks such as Banco Panamericano and financial institutions linked to large banks, such as Losango (HSBC), BV Financeira (Votorantim) and Aymoré (Santander).

## **Human Resources**

The quality of our employees is vital to the success of our strategy. Our human resources policy includes (i) retaining and attracting senior executives and employees, who are highly-qualified and experienced in their business areas, (ii) providing compensation and benefits designed to motivate our employees, and (iii) investing in professional qualification and training programmes for our executives, employees and other workers.

### **Employees and Human Resource Policy**

Following the consolidation of Credifibra into Banco Fibra we had 945 employees (478 for Banco Fibra and 467 for Credifibra) as of December 31, 2012, compared to an aggregate number of 1,571 employees for Banco Fibra and Credifibra as of December 31, 2011. All laid-off employees with managerial positions were granted outplacement packages.

Our employees are located in various states in the country: Bahia, Brasília, Ceará, Espírito Santo, Goiás, Mato Grosso, Minas Gerais, Paraná, Pernambuco, Rio de Janeiro, Rio Grande do Sul, Santa Catarina and São Paulo.

We have a young and energetic staff capable of sustaining the Bank’s growth. We also believe that extensive experience is also an important factor in both our employees’ success and the Bank’s success. As of December 31, 2012, 51% of our professionals are under 35.

In general, our professionals have worked for companies operating in the financial markets, possess the relevant expertise to add value to our Bank and have strong academic credentials. As of December 31, 2012, 66% either have college degrees or are attending college, 18% have postgraduate degrees or master’s degrees. The remaining 16% have high school diplomas only.

### *Payroll*

During the year ended December 31, 2012, the total cost of our employees’ payroll was R\$269.9 million.

### *Labour Unions*

Our employees are represented by the Union of Banking Establishment Employees of the State of São Paulo; by the Union of Employees of Independent Business Agents and Consulting, Expert Investigation, Information and

Research Companies, and Accounting Service Companies in the states of São Paulo, Rio de Janeiro, Minas Gerais and Paraná; and by the Union of Employees of Private Insurance and Capitalisation Companies, Independent Private Insurance and Credit Agents, and Private Welfare Companies in the state of São Paulo.

Our employees have not been involved in any strike, lockout, protest, slow-down or other work disruption in recent years. We believe this is the result of the good relationship we have with our employees and the labour unions that represent them.

#### *Training Programmes*

We provide training programmes for our employees within and outside the Bank in order to optimise their performance levels. We provide these programmes because we believe that training our professionals gives us a key competitive edge.

In the year ended December 31, 2012, we provided 1,500 hours of technical and workplan skills training, such as anti-money laundering, security information, credit leadership and environmental trainings. Of these courses, 22 were offered online via an e-learning platform and 52 with the physical presence of the attendees.

During 2012, we offered external training programmes, such as a DDA (Authorised Direct Debit) seminar, a Sustainable Finance lecture, ANBIMA certifications and upgrades, a “Know Your Client” programme and sales related training.

#### *Benefits Policy*

We offer all our employees life insurance, health insurance, orthodontic assistance, meal ticket, food vouchers, and transportation vouchers. None of these benefits is considered a part of the employees’ salary.

In addition to these benefits, we have an agreement for granting loans and financing to employees through payroll deductibles.

#### *Compensation and Promotion Policy*

Our compensation policy is based on market practices, and we ensure that all employees earn wages consistent with the prevailing market wage for their positions. Salary increases beyond those required under collective bargaining agreements are based on merit.

#### *Retention Policy*

In order to retain its employees, our board of directors decided to adopted a retention bonus programme. The programme required employees to remain in service for a period of two years and contemplated payments in two installments, the first of which was made on December 31, 2010 and the second of which was made on February 29, 2012. The aggregate amount of the bonuses paid under the programme was R\$61.5 million for the Bank and its subsidiaries, of which R\$57.7 million related to the Bank.

#### *Compensation of Key Management Personnel*

On November 25, 2010, CMN enacted Resolution No. 3,921 (“Resolution no. 3,921”). The main objective of Resolution 3,921 it to regulate and institutionalize the remuneration policy of directors of financial institutions, with a view to align it with the risk management policies of financial institutions and avoid unwanted risk taking behavior by directors.

Resolution 3,921 establishes guidelines for the creation of variable compensation programs, sets forth liabilities for the approval, execution and disclosure of remuneration policies, emphasizing the role of boards of directors in the process, and requires the creation of a remuneration committee.



Because of these new rules, the shareholders of the Bank, in a special shareholders meeting held on March 15, 2012, approved the creation of a Remuneration Committee for the Bank, which is composed by the chief executive officer of the Bank, one representative of the Bank's controlling shareholder, two independent members and the Bank's head of Human Resources.

In line with the provisions of Resolution 3,921, in the remuneration of our directors and managers it will be weighted the impacts of at least three criteria: (i) individual performance, (ii) area performance, and (iii) the bank's performance. In order to minimize possible conflict of interest, for the directors and managers of our credit risk department, criterium (iii) (bank's performance) will not be applicable.

Our management receives the portion of its variable remuneration for each year in four installments, being 50% in the first year, with the remaining 50% being deferred for the following three years in the proportion of one third for each year. This policy complies with the rules established by the Central Bank.

All managers have their targets approved by the Remuneration Committee, which also assess their achievement. The entire process is documented and remains available to the Central Bank for inspection.

Banco Fibra's managers are paid through *Pro-Labore* or wages when registered under Brazilian labor rules, and the associated expenses are accounted for as personnel expenses.

#### *Stock Option Plan*

We intend to implement a stock option plan in order to align the interests of officers and shareholders and, as a result, attract and retain employees.

#### *Occupational Safety and Health*

We maintain an environmental risk prevention programme in order to prepare reports designed to maintain occupational safety and health, ensuring a healthy environment for our employees and customers. We also maintain an occupational health medical control programme. Pursuant to current legislation, our employees undergo mandatory medical exams at the time of hiring, change of position, and upon leaving the Bank. We do not have any areas or activities that present a health hazard and/or are otherwise hazardous under applicable laws.

#### **Information Technology**

We rely on a modern technological platform to perform our transactions in both the corporate and retail segments. Specifically in the corporate segment, these systems help to (i) control market risk, (ii) keep credit limits in line with our internal policy, (iii) monitor the entire customer relations flow from prospective customer prospecting to credit committee approval, (iv) monitor the collateral (receivables) provided, (v) monitor liquidity history, (vi) reject credit applications, (vii) control portfolio concentration, (viii) monitor credit risks, and (ix) implement the best compliance practices.

In the retail segment, our technological platform allows us to carry out assessments of our customers' credit quality in a standardised, safe and speedy manner. Nearly all of CDC and payroll deductible loan applications are processed over the Internet. This set of standardised processes allows for a rigorous monitoring of indicators for our business, and has helped to reduce default ratios.

Our strategy with respect to our technological platform can be summarised by the following principles:

- *High Technology*: carefully plan the acquisition of hardware and software capable of keeping our operations in line with quality and safety standards for our type of business. We have expanded and upgraded the capacity of our servers, in line with our business strategy, in order to maintain sustainable and balanced growth. Our technology investments have been aligned with our growth strategy, without jeopardising the safety of processes. Our installed capacity meets our current needs during peak and normal activity and enables us to carefully plan for the expansion of our business;

- *Customised Systems*: develop internally, or with the help of consultants, customised systems to meet our specific needs and accomplish our strategic plans; and
- *Investment in People*: hire and retain professionals who are able to create and implement accurately and rapidly the systems we need for the continuity and safety of our operations.

## **Marketing**

Our marketing department organises relationship events to build close relationships with our customers and agents in the business community and coordinates the activities of our public relations department which issues institutional press releases.

Our marketing department is also responsible for internal marketing initiatives focused on our employees, for sponsoring social and cultural projects, and for building our corporate volunteer and social responsibility programme.

## **Social Responsibility**

Our social responsibility policy is focused on social programmes that promote the well-being of children and teenagers, providing them with access to education and culture. We provide support to entities by sponsoring projects or providing grants. In addition, we seek to involve all of our employees in social projects, including on a volunteer basis.

In the year ended December 31, 2012, our investment in social and cultural activities included funded support for several projects, including the following:

- *Projeto Travessia*, coordinated by the Union of Bank Employees – with which we have been involved since the launch of the project in 1995;
- *McDia Feliz*, coordinated with McDonalds, via distribution of meal vouchers to all employees for the purchase of Big Macs on the Brazilian Day of Fight Against Cancer, on which all proceeds of sales of Big Macs are donated by McDonalds to entities dedicated to prevention, detection and treatment of cancer;
- *Participe e Recicle*, we hired ADS Green to collect batteries, used cellular phones and other technological residues and properly dispose of such waste. The disposal is formally certified and we have collection points all over our premises, enabling our employees to contribute to the protection of the environment;
- *Exposition “Doris Salcedo, plegária muda,”* in cooperation with Pinacoteca de São Paulo, a museum dedicated to the promotion of visual arts.
- *Plastic Art Book*, published by Artist Laura Lima, Ed. Cobogó RJ.
- Donations to Centro Social Bom Jesus de Cangaíba.

In the year ended December 31, 2012 our investment in social and cultural activities included unfunded support for the following projects:

- *Campanha do Agasalho*, through the collection of more than 950 kilos of garments and blankets for donation to the State of São Paulo government.
- *Projeto Carona de Fibra*, a project to incentivize car pooling among our employees.
- *Vamos Tirar o Planeta do Sufoco*, a project for the disclosure of information regarding the reutilization of plastic bags.

- *Blood Donation Campaign*, in support for the donation of blood.
- *Toys Donation Campaign*, through the collection of children's toys for donation to the social projects of the Mosteiro São Geraldo, in the State of São Paulo.
- *Adote uma Criança neste Natal*, a campaign promoted by *Grupo Alegria de Criança* in support for the adoption of children.

Our criteria for determining whether to support a project are based on the organisation's integrity, its ability to monitor its participants' activities and the level of the project's social and professional inclusiveness.

## **Environmental**

We recognise that sustainable development results from a balance between social and economic growth and environmental protection. Accordingly, we have sought to adopt responsible practices in dealing with the environment and social issues. These practices are aimed at keeping social and environmental interests from lagging behind business interests and following the best social, environmental and corporate practices.

### *Credit Linked to Environmental Policies*

In accordance with the guidelines issued by our shareholder IFC, in September 2007 we adopted a social and environmental management system. This system affects the policies, procedures and approval flows for our lending operations. We intend to only provide financing to companies whose standards of care for the environment and health and safety principles are aligned with our environmental and social management system. Potential customers will have to undergo an environmental and social due diligence review in order to be approved. Such diligence will include an analysis of the business sector in which the company operates and the practices it has adopted. We do not expect these changes to significantly affect our future loan volumes.

In addition, in line with these practices, we will neither establish nor maintain business relations with customers engaged in activities as (i) trade in wild animals and plants, or any related products, as regulated by the Convention on International Trade in Endangered Species; (ii) the production of or trade in radioactive materials; (iii) the production, trade in or use of loose asbestos fiber; (iv) commercial lumber-cutting operations or the purchase of lumber-cutting equipment, except in reforestation areas; and (v) the manufacture of or trade in substances that are harmful to the ozone layer, which are in the process of being phased out.

We do not believe that our adoption of the practices described above will have a material influence on our future loan volume.

### *Environmental Projects*

We have adopted many practices aimed at preserving the environment. For example we recycle the materials (including batteries, cell phones and other technological waste) used at our São Paulo office, where our largest workforce is concentrated. In addition, in order to reduce electricity and water consumption, we have installed motion sensors in the offices and restrooms of our São Paulo office.

Additionally, Fibra has developed the *Fibra Mais com Menos* (More with Less) in-house campaign that encourages careful use by our employees of resources such as water, power, plastic, phones, paper, food, transport and time so as to lessen environmental, social and economic impact.

## **Leased Properties**

We lease all our places of business, including our headquarters, at Avenida Juscelino Kubitschek, 360, 4th through 9th floors and 19th floor, in the city and state of São Paulo.

## **Insurance and Contingency Plan**

### *Named Risk Insurance*

We have named risk insurance with basic coverage for fire, lightning, explosion or implosion (building, machinery, furniture and fixtures), electrical damage, electronic equipment damage (not including theft), business interruption as a result of basic coverage (six-month indemnity period), loss or rental payment (6-month indemnity period), expenses with recovery of records and documents, and civil liability for business establishments. The coverage amount varies according to the risk. The risk covered for the highest limit relates to fire, lightning, explosion or implosion (building, machinery, furniture and fixtures). The maximum coverage is R\$117 million. This policy is renewed annually and is in effect until March 2014.

### *Officers' Civil Liability Insurance – D&O*

We have civil liability insurance for our officers and for the officers of our controlled companies. This insurance covers officers' liability arising from damages legally enforced against them by reason of claims initiated during the effective term of the policy. These claims must arise solely and exclusively out of their actions in their capacity as officers of the insured companies within the coverage period. This insurance will indemnify any amounts directly arising from pecuniary awards in final judgments or final arbitration awards rendered against the Bank and its controlled companies. It also indemnifies us for settlements in or out of court for which the insurer gives its prior written consent and legal defence costs pertaining to claims initiated anywhere in the world in accordance with the specifications of the policy.

Under this policy, the insured amount is capped at R\$30.0 million and the coverage is in effect until October 2013.

### *Bankers Blanket Bond*

We have coverage for us and for our controlled companies until October 2013, with a multiple-risk bond for financial institutions, purchased from Zurich Seguros. This policy covers fraudulent acts by employees, facilities, counterfeiting, computer fraud, kidnap management, expert investigation expenses, pre-loss consulting services, net financial cost, forfeiture of rights related to securities, liability for cancel-payment orders, attorney's fees, costs and expenses, new facilities and automatic inclusion of new subsidiaries. The maximum coverage amount is limited to R\$5.25 million.

### *Business Continuity Plan*

Consistent with best market practices and the recommendations of regulatory bodies, we developed a business continuity plan, which is composed of (i) Crisis Management Plan; (ii) IT Disaster Recovery Plan and (iii) Business Areas Continuity Plan.

The business continuity plan is composed of strategic and operational plans of action aimed at ensuring the continuity of our operations, should an extraordinary event occur that would make it impossible to use part or all of our infrastructure and/or operational resources. After impact assessment, scenario analysis, and a study of the eligibility of critical areas of business, we contracted our backup site at IBM, where we intend to make the plan viable following simulation and testing.

## **Relevant Contracts**

### *Credit Assignment Agreement*

We have entered into a credit assignment agreements with Banco Bradesco and Banco do Brasil for the assignment to Banco Bradesco, with co-obligations or collateral, of payroll deductible loans and vehicle financing transactions. As of December 31, 2012, the value of this agreement was R\$180.3 million.

### *Subscription Agreement*

Within the scope of IFC's investment in our capital stock, we have executed, among other contracts, a Subscription Agreement. For more information on these contracts, see "Principal Shareholders."

### *Agreements with Private Entities*

We have executed agreements with approximately 30 private entities, including Companhia Siderúrgica Nacional, Rio Bravo Securitizadora S.A. and Sodexo Pass do Brasil Ltda.

### *Agreement with Proparco*

On November 12, 2009, we entered into a U.S.\$30.0 million bilateral credit facility with the French development agency *Société de Promotion et de Participation pour la Coopération Economique* ("Proparco") as lender with a term of ten years, to provide financing to renewable energy companies.

### *Agreement with DEG*

On February 3, 2010 we entered into a U.S.\$25.0 million credit facility with DEG, with a six-year term. This loan qualifies as our Tier 2 subordinated debt.

## **Intellectual Property**

Our trademarks are registered or in the process of being registered in Brazil with the National Institute of Industrial Property, or INPI. During the trademark registration process, the applicant is entitled to use the trademark filed to identify its products or services. However, the exclusive right to use such trademark is only given to the applicant upon its actual registration by the INPI.

We have, either directly or through our controlled companies, two registered "Fibra" trademarks corresponding to our lines of business. In addition, we hold 11 registration applications for the trademarks "Crédito Já," "Consig Fibra," and "Consigna Já," "GVI" and "GVI Promotora."

We also own, either directly or through our controlled companies, 11 domain names in Brazil, all of which are duly registered with Núcleo de Informação e Coordenação do Ponto Br – NIC.Br, the agency in charge of registering domain names in Brazil. In addition, we own eight domain names registered abroad.

## **Software**

We hold valid licenses for the software installed at our facilities. The key software for the development of our activities was developed in-house. This software includes *Boleto Eletrônico*, a system that records most of the transactions involving incoming and outgoing funds denominated in *reais*; *Cadastro Corporativo*, a system that records information regarding all individuals and entities related to Banco Fibra; *Risco Comercial*, which provides a consolidated report on of customers' positions in respect of any credit limits and their utilisation; and *Central de Risco*, which allows the Central Bank to stay informed as to our customers' credit risk profiles.

## **Judicial and Administrative Contingencies**

We are party to a number of legal and administrative proceedings as plaintiffs and defendants relating to tax, labour and civil matters. We believe that the provisions we have recorded in respect of these proceedings are sufficient to cover any probable losses. We believe that no single ongoing legal or administrative claim, if resolved unfavourably to us, would materially affect our financial condition, results of operations, business activities or corporate image.

As of December 31, 2012, the total claims in respect of which we are defendants (including tax, labour and civil matters) corresponded to R\$363 million, and we recorded R\$267.8 million in respect of these claims, based on the opinion of our external counsel.

### *Judicial and Administrative Tax Contingencies*

As of December 31, 2012, we were party to 251 lawsuits and 72 administrative proceedings of a tax nature, involving asset or liability contingencies. The total amount involved in each such category corresponds to R\$28 million in asset contingencies and R\$321 million in liability contingencies.

According to Brazilian GAAP, asset contingencies are only recognised as Bank assets upon a final judgment rendered in the cases. As of December 31, 2012, in relation to liability contingencies, we maintained a provision for proceedings of a tax nature classified as a probable loss, in the amount of R\$226.7 million. We do not maintain a provision for proceedings classified as a remote or possible loss, which total R\$95 million. We have posted court bonds totaling R\$213 million.

The most significant tax proceeding in which we are involved relates to the Contribution for Social Security Funding (COFINS) and Social Integration Programme (PIS) on Financial Revenues – Law 9,718/98.

In June of 2006, the Bank and Fibra Asset Management filed a writ of mandamus seeking to discuss in court the terms of Law No. 9,718/98, in order (i) to assure their right to pay COFINS/PIS on billings only, and thereby to remove the expanded tax base introduced by Art. 3 of Law 9,718/98, (ii) to remove the cancellation of the exemption granted by Supplemental Law 70/91 regarding the payment of such contribution by financial institutions, and (iii) to offset any amounts unduly paid. The judgment was in part favourable to acknowledge their right to payment without the expanded tax base introduced by Art. 3 of Law No. 9,718/98. The Bank and Fibra Asset Management did not enter an appeal against the ruling with respect to the cancelled exemption. As of June 20, 2007, the *Procuradoria Geral da Fazenda Nacional* - PGFN filed an appeal, which was ruled in favour of PGFN. Due to a substantive error, omission and contradiction in the decision, the Bank and Fibra Asset Management filed an appeal, which is awaiting decision. After the ruling, the Bank and Fibra Asset Management, benefiting from a preliminary injunction, began paying COFINS/PIS without the expanded tax base introduced by Law 9,718/98. As of December 31, 2012, we estimate that the liability contingency amount in relation to this case was R\$226.7 million, which was fully provisioned. Our legal counsel handling this case rates our probability of losing this case as remote. To prevent forfeiture of the contribution, the Brazilian Federal Revenue Department issued a tax violation notice regarding this matter on September 18, 2009.

### *Labour Contingencies*

As of December 31, 2012, we were party to 334 labour claims, including lawsuits filed against GVI/Credifibra. The amount involved in such claims was, in the aggregate, R\$51.2 million. The aggregate amount was ascertained by calculating all motions entered in a claim, adjusted on a monthly basis. Based on historical losses in actions of this type, we have established a provision of R\$10.7 million for the event of any losses in labour claims with outstanding payment.

### *Civil Contingencies*

As of December 31, 2012, we were the defendant in 3,827 civil actions in relation to which we have set up provisions. The related provision has been set up for R\$30.4 million.

Below are summaries of the most relevant lawsuits in which we or our controlled companies appear as a defendant:

#### *Class Actions Suits Brought Against Fibra Leasing to Revise Contract Clauses Pegged to the U.S. Dollar*

Fibra Leasing is a party to nine class actions seeking to revise or declare null and void such contract clauses as were inserted in loan and leasing agreements and indexed to the U.S. dollar, and therefore to replace such indexation with the INPC rate published by the IBGE, in addition to a judgment award against Fibra Leasing to refund any amounts paid by consumers in excess thereof. Six of these actions were filed by the Attorney General, whose standing to sue pursuant to such actions is being questioned. As of yet, a final decision has not been rendered in any such action regarding the Attorney General's standing to sue. The Movement of Minas Gerais Housewives and Consumers has filed another civil class action, and in the latter case the matter is undergoing expert examination. The São Paulo Chapter of the Brazilian Bar Association appears as the plaintiff in another action, in which it has prevailed. Fibra Leasing has appealed that decision, and its appeal is pending judgment. The remaining lawsuit was filed by the

Goiás State Superintendency for the Protection of Consumer Rights – PROCON Goiás, which is presently in trial court awaiting entry of judgment. We are unable to estimate the contingency amount involved in these legal actions to the extent that they involve an uncertain number of loan and leasing agreements which were active at the time of a marked exchange-rate fluctuation. Our counsel handling the matters considers that our chance of losing these suits is possible, since there is a holding by the Superior Justice Court to the effect that instalments must be adjusted at half the exchange rate from January 1999 onward.

*Civil Class Action Suit Brought by the Attorney General for the Federal District Against Fibra Leasing*

In 1999, the Attorney General for the Federal District filed a civil class action against Fibra Leasing seeking to declare null and void a clause under the automobile leasing agreements requiring lessees to purchase full insurance for the automobile as a precondition to enter into said agreements, with a judgment award against Fibra Leasing to refund to lessees any amounts paid as insurance, including with respect to any insurance renewals from time to time, plus statutory interest and monetary adjustment. A judgment was rendered to dismiss the case without a judgment on merit due to lack of standing to sue by the Attorney General for the Federal District. An appeal was entered by the Attorney General for the Federal District against that decision, which was dismissed by the State Supreme Court, which determined that the case should be remanded for consideration on the merits. The case is before the Superior Justice Court to rule on the special appeal entered by the Fibra Leasing. We are unable to estimate the contingency amount involved in these actions, which estimate will only be possible pursuant to an expert accounting examination, to the extent that it involves an uncertain number of leasing agreements in which Fibra Leasing appears as a beneficiary. Our legal counsel considers our chance of losing this suit to be possible.

## Management

In accordance with our bylaws, we are managed by a *Conselho de Administração*, or Board of Directors, consisting of at least six and no more than seven members, together with a *Diretoria*, or Executive Officers, which must have at least four and no more than 19 members. Our bylaws also require the convening of a Fiscal Committee by decision of the shareholders at a shareholders' meeting.

### Board of Directors

Our Board of Directors is a decision-making body responsible for establishing our general strategic and commercial policies. Among other duties, it is responsible for electing, guiding and managing our executive officers. Our Board of Directors is currently composed of seven members. The Board of Directors meets on a regular basis once each quarter of the fiscal year, or on an exceptional basis, whenever the Chairman of the Board of Directors requests.

Brazilian corporate law states that members of the Board of Directors are forbidden from (i) voting on any matter that will result in a conflict of interest with an interest of the Bank; and (ii) taking out a loan consisting of Bank funds or property, without the prior authorisation of either the shareholders at a shareholders' meeting or the Board of Directors.

The term of office of each member of our Board of Directors is two years, with re-election allowed. No member of our Board of Directors has the right to receive any additional remuneration if removed from office. The members of our Board of Directors are not subject to compulsory retirement due to age.

The following table gives the name, date of election and terms of office of each current member of our Board of Directors:

<u>Name</u>	<u>Office</u>	<u>Date of Election</u>	<u>Term of Office</u>
Benjamin Steinbruch.....	Chairman	19/02/2013 (under approval of Central Bank)	First Board of Directors Meeting after 2013 Annual General Meeting
Clarice Steinbruch.....	Board Member	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Elisabeth Steinbruch Schwarz.....	Board Member	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Luiz Nelson Guedes de Carvalho.....	Independent Board Member	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Ricardo Duarte Caldeira.....	Board Member	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Jose Antonio Miguel Neto.....	Independent Board Member	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Bernard Camille Paul Mencier.....	Independent Board Member	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting

The business address of each of our Board members is Avenida Presidente Juscelino Kubitschek, 360, 5<sup>th</sup>, 7<sup>th</sup> and 9<sup>th</sup> Floors, 04543-000, São Paulo, SP, Brazil.



The following is a summary of the professional experience and principal extracurricular activities of the current members of our Board of Directors.

*Benjamin Steinbruch.* Date of Birth: 06/28/1953. Mr. Steinbruch has been a member of CSN's Board of Directors since April 23, 1993, Chairman of the Board since April 28, 1995, and CEO since April 30, 2002. He is also the CEO of Vicunha Siderurgia S.A., a member of the Board of Câmara Portuguesa, 1st Vice-President of FIESP since September 2004, a member of FIESP's Superior Strategic Council, and a Board member of Instituto Roberto Simonsen and IEDI - Institute of Industrial Development Studies. In the past five years, he has held the following positions: Chairman of the Board of Directors and CEO of Vicunha Siderurgia S.A., Vice-Chairman of the Board of Directors of Textília S.A., a member of the Board of Directors of Vicunha Aços S.A., Vicunha Steel S.A., Vicunha S.A., Elizabeth S.A. - Indústria Têxtil, Vicunha Participações S.A., an executive officer of Rio Purus Participações S.A. and Rio Iaco Participações S.A. (all of which part of CSN's controlling group), a member of the Board of Directors of Companhia Metalúrgica Prada and Nacional Minérios S.A. (CSN subsidiaries), a member of the Deliberative Council of Fundação CSN and an Administrator of Fazenda Alvorada de Bragança Agro-Pastoril Ltda., Ibis Agrária Ltda., Ibis II Empreendimentos Ltda., Ibis Participações e Serviços Ltda., Haras Phillipson Ltda. Mr. Steinbruch has a degree in Business Administration from the Getúlio Vargas Foundation's School of Business Administration in São Paulo, with post-graduate studies in Marketing and Finance at the same institution.

*Clarice Steinbruch.* Date of birth: 9/1/1958. Ms. Steinbruch is a graduate of the Getúlio Vargas Foundation School of Business Administration in São Paulo, where she majored in Business Administration. She also graduated in law at the Universidade Paulista. She has served as an executive officer and on the boards of directors of various companies of the Vicunha Group. She is currently an executive officer of Elizabeth S.A. Indústria Têxtil, CFL Participações Ltda. and Taquari Participações Ltda. She is also a member of the boards of directors of VIC Petro S.A., Fibra Companhia Securitizadora de Créditos Imobiliários and Fibra Companhia Securitizadora de Créditos Financeiros.

*Elisabeth Steinbruch Schwarz.* Date of birth: 10/10/1954. Ms. Steinbruch is a graduate of the University of São Paulo Polytechnic School, where she majored in Production Engineering. She has served as an executive officer and member of the board of directors of various companies of the Vicunha Group. She is an executive officer of Elizabeth S.A. Indústria Têxtil and Taquari Participações Ltda. She also currently serves on the board of directors of Fibra Companhia Securitizadora de Créditos Imobiliários and Fibra Companhia Securitizadora de Créditos Financeiros.

*Luiz Nelson Guedes de Carvalho.* Date of birth: 11/18/1945. Graduated in Economics from the School of Economics, Administration and Accounting of the University of São Paulo (FEA-USP), and in Accounting by Faculdades São Judas Tadeu – SP, Master and Doctorate “Strictu Sensu” in Accounting and Comptrollership by FEA-USP. Mr. Carvalho was a consultant for the World Bank for matters of the Brazilian Financial System and for matters of Accounting and Audit Reform in Brazil, and Vice Director of the Inter-American Accounting Association – IAA, member of the boards of directors of various financial institutions, such as CEF and Banco Bilbao Vizcaya Argentaria Brasil – BBVA. He was a director at the Central Bank from 1991 to 1993, and was a director of the CVM – Securities and Exchange Commission from 1990 to 1991, in addition to having already worked as an Independent Auditor. He is currently a professor at the School of Economics, Administration and Accounting of USP, and member, among others, of the CVM's Consultative Committee on Accounting Rules, and member of the board of directors of the ORSA Group and Companhia Müller de Bebidas, and a member of the Editorial Boards of several journals relating to accounting rules and the financial and capital markets.

*Ricardo Duarte Caldeira.* Date of Birth: 04/05/1952. Graduated in Economics from Faculdade de Ciências Econômicas do Rio de Janeiro (Rio de Janeiro College of Economics) and completed his post-graduate studies in project engineering at Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro). He previously held the position of executive director at BankBoston, where he worked for 29 years.

*José Antônio Miguel Neto.* Date of Birth: 06/04/1963. Graduated from Faculdade de Direito da Universidade de São Paulo (Law School of the University of São Paulo) and studied International Law at the Parker School of International and Corporate Law. He worked for Johnson and Johnson S.A. (São Paulo, Brazil), Sidley & Austin and Stroeter (New York), and Trench & Veirano Advogados – Baker & Mackenzie (São Paulo, Brazil). He is currently a partner in the law firm Miguel Neto Advogados Associados (São Paulo, Brazil).

*Bernard Camille Paul Menciaer*. Date of Birth: 14/10/1942. Mr. Menciaer was elected an independent member of the Bank's Board of Directors for a two-year term. Mr. Menciaer has considerable international experience in trade finance, investments and projects gained at major banking groups in Europe, North America, Africa and Brazil. Over the course of his 35 years of banking activity, he has held various positions, including those of chief executive officer of BNP Paribas in Brazil and deputy general director of Crédit Commercial de France.

### **Executive Officers**

Our Executive Officers are the Bank's legal representatives and are responsible for the Bank's daily executive management, implementing the general policies and guidelines established by the Board of Directors.

Brazilian corporate law states that each Executive Officer must reside in Brazil, and that he or she may or may not be a shareholder in the Bank. In addition, up to one third of the members of the Board of Directors may also be Executive Officers.

In accordance with our bylaws, we may have at least three and no more than nineteen Executive Officers elected by the Board of Directors for a two-year term of office, with re-election allowed. The Board of Directors can remove any Executive Officer prior to the end of his/her term of office.

We currently have eight Executive Officers, with each serving until the first Board of Directors meeting after the 2013 Annual General Meeting.

The following table contains the name, office, election date and term of office of our current Executive Officers:

<u>Name</u>	<u>Office</u>	<u>Date of Election</u>	<u>Term of Office Ending on</u>
Antônio Francisco de Lima Neto .....	Executive President and Director of Investor Relations	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Carlos Leibowicz .....	Executive Vice President for Wholesale Business	21/03/2012	First Board of Directors Meeting after 2013 Annual General Meeting
Paulo Euclides Bonzanini.....	Executive Vice President for Retail Business	21/05/2012	First Board of Directors Meeting after 2013 Annual General Meeting
Glauco Cavalcante Lima .....	Corporate Executive Vice President	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Luiz Mauricio Lamenza de Moraes Jardim.....	Executive Treasury & Funding Director	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Carlos Alexandre Ribeiro Bicudo .....	Area Director	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Luciana Buchmann Freire .....	Area Director	29/04/2011	First Board of Directors Meeting after 2013 Annual General Meeting
Sergio Rogante .....	Area Director	13/05/2011	First Board of Directors Meeting after 2013 Annual General Meeting

The following is a summary of the professional experience and principal extra-curricular activities of our current Executive Officers. The business address of each of our Executive Officers is Avenida Presidente Juscelino Kubitschek, 360, 5<sup>th</sup>, 7<sup>th</sup> and 9<sup>th</sup> Floors, 04543-000, São Paulo, SP, Brazil.

*Antônio Francisco de Lima Neto.* Date of Birth: 06/13/1965. Mr. Lima Neto worked for 29 years at Banco do Brasil, which he joined at age 14 when he entered its trainee programme for minors, and where he built his career and reached the post of President, having previously been a branch manager and held positions in the Wholesale, International Banking and Retail areas. He has accumulated vast expertise in banking management and administration, in particular in the areas of credit for individuals and for companies. Mr. Lima Neto also led the process of Banco do Brasil's strategic repositioning (acquisitions and the development of new lines of business), which resulted in record profits at the end of 2008.

*Carlos Leibowicz.* Date of birth: 12/31/1970. Mr. Leibowicz is an Economics graduated by Universidade Nacional de Cuyo (Mendoza, Argentina). He held the positions of Executive Director of Corporate Banking at Santander Group, Chief Risk Officer for Banco Real, and led different areas at ABN Amro Bank in Argentina, Brazil, the Netherlands and Italy. He has been with Banco Fibra since March 2012

*Paulo Euclides Bonzanini.* Date of birth: 10/31/1956. Mr. Bonzanini graduated in Business Administration and Accounting, with an MBA in General Education for Top Executives at USP (São Paulo University). He served for more than 30 years at Banco do Brasil, where he held, for the last 5 years at that institution, the position of Retail Director. He held the position of General Director of the Insurer Group BB/Mapfre from 2011 to 2012. Previously, he was Commercial Director of Companhia de Seguros Aliança do Brasil (2009-2011) and Chief Executive Officer of Banco Nossa Caixa S.A. (2009). He has been with Banco Fibra since 2012.

*Glauco Cavalcante Lima.* Date of Birth: 8/15/1961. Mr. Cavalcante Lima is a graduate of the Associação de Ensino Unificado do Distrito Federal, where he majored in Accounting. He completed his MBA at Fipecafi/USP and Corporate Governance at the same institution. Mr. Cavalcante Lima has extensive experience in the financial markets, having worked for more than 27 years at Banco do Brasil.

*Luiz Mauricio Lamenza de Moraes Jardim.* Date of birth: 02/12/1958. Mr. Jardim is a graduate of Gay-Lussac Institute, class of 1986, where he majored in Economics. He also studied in Berkeley. He worked for Banco Nacional S.A. for eleven years and was responsible for Corporate Finance from 1989 to 1995; for Unibanco – União de Bancos Brasileiros S.A. for 10 years as a Director from 1995 to 2005; and for Banco Standard de Investimentos S.A. for three years as an Executive Director from 2005 to 2008. He has been with Banco Fibra since 2008.

*Carlos Alexandre Ribeiro Bicudo.* Date of birth: 5/18/1968. Mr. Bicudo is a graduate of Mackenzie University, class of 1988, where he majored in Chemistry. He also graduated in business administration at the Universidade de São Paulo. He has previously worked at Banco ABC Brasil and Itamarati and has worked in the credit area since 1992.

*Luciana Buchmann Freire.* Date of birth: 9/5/1966. Ms. Freire is a graduate of the University of São Paulo School of Law, class of 1989, where she specialised in Corporate Law and Financial Institution Management. She gained previous experience at Banco Rabobank International Brasil S.A. from 1999 to 2001, where she was the executive director in charge of the legal department and compliance. From 1994 to 1999, she was head of the legal department at Banco Santos S.A., and was an international banking attorney at Noronha Advogados from 1989 to 1994. She is a member of the Legal Committee of ABBC – Brazilian Association of Commercial Banks and the Legal Committee of Febraban – Brazilian Federation of Banks. She has been with Banco Fibra since 2001.

*Sergio Rogante.* Date of birth: 01/27/1970. Mr. Rogante is an Economics and Accounting graduated by Fundação Escola de Comércio Álvares Penteado, with an MBA by Business School São Paulo. He also attended some professional training courses at University of Toronto and Boston University. Before joining Banco Fibra, he had worked at PricewaterhouseCoopers for 20 years, where he held the position of director since 2004, and specialized in the financial markets, leading projects in Brazil and abroad. He is author of the book "Mercado Financeiro Brasileiro – Mudanças esperadas para adaptação a um ambiente de taxas de juros declinantes," published in 2009 by Editora Atlas. He has also written articles published by financial markets specialized magazines and websites both in Brazil and abroad. He is a professor at FIPECAFI – Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras. He joined Banco Fibra in April 2011.

### **Fiscal Committee**

Brazilian corporate law states that the fiscal committee must be an independent administrative body of the company, separate from the company's external auditors. The fiscal committee's main duty is to review management activities and financial statements and to report its conclusions to the shareholders. The fiscal committee can function on a permanent basis, in which case it will act during a specific fiscal year, or on a temporary basis, when convened at the request of the shareholders representing at least 2% of the voting shares or 1% of the non-voting shares. Each period in which the fiscal committee functions will terminate on the date of the first ordinary shareholders' meeting held after it is convened.

Brazilian corporate law states that, when the Fiscal Committee is convened, none of the Executive Officers, members of the Board of Directors or our personnel staff may serve on it. This also applies to any spouses or relatives up to three-times removed of any member of our administration.

Under the bylaws, our Fiscal Committee is not permanent and can only be convened by decision of the shareholders at a shareholders' meeting. The Fiscal Committee must be composed of at least three effective members and an equal number of alternates, who may or may not be shareholders, who reside in Brazil, are elected for a one-year term of office and are subject to removal by the shareholders at a shareholders' meeting.

Our Fiscal Committee is currently not convened.

### **Executive Committee**

Our Executive Committee was established in August 2007. The Executive Committee meets weekly and is responsible for aligning all of our business strategies and evaluating the results obtained. Our Executive Committee is currently composed of six members, as shown in the following table:

<u>Name</u>	<u>Title</u>
Benjamin Steinbruch .....	President
Carlos Leibowicz .....	Member
Paulo Euclides Bonzanini .....	Member
Luiz Mauricio Lamenza de Moraes Jardim .....	Member
Antônio Francisco de Lima Neto.....	Member
Glauco Cavalcante Lima .....	Member

### **Audit Committee**

We have an Audit Committee, which reports to the Board of Directors. The Audit Committee is composed of at least three members and no more than an equal number of alternates, with a 3-year term of office, nominated and subject to removal by our Board of Directors. The Audit Committee is responsible for advising the Board of Directors as to the latter's exercise of its functions, establishing operational rules for its own functions, reviewing financial statements prior to their publication and other activities determined by its internal rules.

The composition of our Audit Committee must comply with the following requirements: (i) it must have the participation of an Executive Officer who is technically qualified and designated to answer to the Central Bank regarding the monitoring, supervision and compliance with the accounting norms and procedures required by current regulations; and (ii) at least one of its effective and alternate members must have proven expertise in the areas of accounting and auditing that qualifies him/her for the function. Our Audit Committee meets every three months or on an extraordinary basis as necessary.

Our Audit Committee is currently composed of two members, as shown in the following table:

<u>Name</u>	<u>Office</u>	<u>Took Office on</u>	<u>Term of Office Expires on</u>
Glauco Cavalcante Lima .....	Qualified Member	09/12/2011	Date of first Board of Directors meeting after the general shareholders meeting in 2013
Sérgio Rogante .....	Member	09/12/2011	Date of first Board of Directors meeting after the general shareholders meeting in 2013
Bernard Camille Paul Menciaer .....	Member	11/14/2012	Date of first Board of Directors meeting after the general shareholders meeting in 2013
Luciana Buchmann Freire .....	Member	11/14/2012	Date of first Board of Directors meeting after the general shareholders meeting in 2013
Luiz Nelson Guedes de Carvalho .....	Member	11/14/2012	Date of first Board of Directors meeting after the general shareholders meeting in 2013

### **Credit Committees**

Our credit committees are responsible for approving credit limits. They analyse applications for credit limits and transactions for customers and potential customers, and review existing credit policies.

The committees are broken down into several levels, all of which aim to involve the Bank's executives in the decision-making process. Our credit committees are divided into market segments, as described below.

#### *Middle Market and Corporate*

The Middle Market and Corporate Credit Committee is comprised of a Pre-Credit Committee and a Credit Committee. The Pre-Credit Committee discusses applications to be forwarded to the Credit Committee, and its main duties and responsibilities are to define the priorities of analysis processes, and to schedule credit limit analyses. The Middle Market and Corporate Credit Committee meets once a week and applications are discussed at prescribed jurisdictional levels. The committee is composed of the head of the area, credit analyst and the commercial manager. These levels differ in regard to value, term and guarantees, and always have at least two executive officers as members. Approvals over R\$10 million are formally submitted to the Executive Committee for ratification. The Credit Committee analyses the applications forwarded by the Pre-Credit Committee for both the Middle Market segment and the Corporate segment.

#### *Debt Restructuring and Credit Recovery*

The Debt Restructuring and Credit Recovery Committee meets monthly to analyse and follow-up with situations under "abnormal course," and is comprised of the Credit Recovery Manager, Credit Director, Head of Litigation Dept, Legal Director and Wholesale Business Executive Vice President.

#### *Retail*

The Retail Credit Committee is responsible for analyzing credit limits in the Retail Segment. This committee meets weekly and is composed of the risk manager, credit manager, commercial manager responsible for the region and the planning committee.

### **Assets and Liabilities Committee – ALCO**

The goal of this committee is to define the guidelines to be adopted for structural risk management on the Bank's balance sheet (interest rate, liquidity, foreign exchange, and country risk), as well as for capital management.

Foremost among its duties and responsibilities are: (i) monitoring the general policies used by the operations areas, and their relationship to the Bank's overall strategy; (ii) carrying out the analytical monitoring of the Bank's risk portfolio; (iii) discussing funds allocation policies in general, considering government, industry and trade conditions for the sector; (iv) defining rates of return over the assumed risks, and monitoring whether transactions performed are in accordance therewith; (v) discussing funding policies and forms with a view to funds allocation policies (prices, values, time periods) and liquidity levels (minimum cash, funding terms, and volume of assets); (vi) evaluating portfolios and operating levels from the perspective of capital utilisation, so as to maximise its utilisation; (vii) discussing portfolio structure with respect to time periods, maturity concentration, and short and long-term policies; (viii) monitoring the use of foreign credit facilities and allocation as a way of maximising their result; (ix) monitoring the capital allocated to our various business segments, with the goal of achieving greater efficiency; and (x) monitoring leverage ratios.

This committee is required to meet on a monthly basis and is comprised of the following members: Chairman of the Board, President, Corporative Executive Vice President; Wholesale Executive Vice President; Retail Executive Vice President; Funding and Treasury Executive Director; Head of ALM; Head of Local Funding; Operational Support, Compliance and Risks Director; Head of; Contoller; Head of Internal Audit.

### **Market Risk Committee**

This committee performs technical and managerial functions, and its goal is to appraise the methodologies used for monitoring market risks. Its main duties and responsibilities are: (i) to define and disclose the Bank's risk policy, focusing on such aspects as concentration, portfolio diversification, risk assets, etc.; (ii) to discuss the scenarios to be applied to risk positions with the aim of establishing loss limits; (iii) to make sure that the Bank's risk management structure is duly implemented and appropriate for its activities, and to revise it whenever any changes occur in market conditions or rules or in business strategy; (iv) to make sure that the inherent risks of new products are identified and in compliance with the Bank's risk policy; (v) to propose, ratify and monitor the Bank's risk exposure, and the established procedures and limits; and (vi) to check periodically on produced results stress tests, and analyse the guidelines used for risk management through the back-tests of the risk system.

The Market Risk Committee is comprised of two permanent groups: A Group (with voting rights) and B Group (without voting rights). Members of A Group are Wholesale Business Executive Vice President; Finance and International Executive Director; Chief Economist; Corporate Executive Vice President; and Operational Support, Compliance and Risks Director. Members of B Group are Head of Treasury; Market Risk Manager; Options and Accrual Desk Head; Management Information Systems Head and Basel II Manager. Other employees specialised in the subject under discussion also participate in this committee as necessary.

### **Credit Risk Committee**

The Credit Risk Committee is responsible for evaluating our credit portfolio, monitoring credit limits, defaults, risk exposure and group and sector concentration, and performing stress and benchmark analyses. It meets in the first half of every month and whenever deemed necessary. This committee is composed of the President, Retail Executive Vice President, Wholesale Executive Vice President, Corporative Executive Vice President, Funding & Treasury Executive Director, Commercial Director, Credit Director, Operational Support, Compliance and Risk Director, Head of Corporate Credit and Head of Agribusiness.

### **Global Risk Committee**

The Global Risk Committee implements decisions relating to credit risk, financial markets issues, operational issues, compliance issues and anti-money laundering measures. It meets every three months and is composed by the President, Retail Executive Vice President, Wholesale Executive Vice President, Corporative Executive Vice President, Funding & Treasury Executive Director, Commercial Director, Credit Director, Operational Support Director, Compliance and Risk Superintendent, Legal Director.

### **Anti-Money Laundering Committee**

The Compliance area coordinates this committee, which is responsible for receiving and analysing information and making determinations, according to the applicable criteria, about clients with suspicious transactions and/or indications of records in money laundering and/or the financing of terrorism. This committee also determines whether or not to report a suspicious situation to the applicable regulatory agency. This committee includes permanent and occasional members and meets every three months or on an extraordinary basis, as necessary. The permanent members are the President, the Corporate Executive Vice President, the Wholesale Executive Vice President, the Retail Executive Vice President, the Operational Support, Compliance and Risks Director, the Compliance Superintendent, and the Legal Director. The occasional members vary depending on the nature of the situation being analysed.

### **Other Committees**

In addition to the committees described above, we have other committees covering a number of subjects and areas of operation:

- *Products and Services Committee*, which meets to evaluate new products and services and define conditions for the implementation of operations relating to these products and services;
- *Ethics Committee*, which is responsible for promoting an ethical culture within the Bank, approving ethics related policies and evaluating professional conduct issues;
- *Technology Committee*, which is responsible for the study and evaluation of IT solutions that may improve our technology infrastructure and the approval of IT projects; and
- *Security and Information Privacy Committee*, which is responsible for defining strategies to implement privacy and security initiatives of the Bank.

### **Remuneration**

In accordance with our bylaws, the remuneration of our directors, members of the Board of Directors and members of the Fiscal and Audit Committees is approved by the shareholders at a shareholders' meeting. Details are distributed by the Board of Directors. In 2012, the total remuneration paid to our Executive Officers, members of the Board of Directors and members of the Audit Committees was R\$15.8 million. The total remuneration paid to our Executive Officers, members of the Board of Directors and members of the Audit Committees in 2011 will be voted at the annual shareholders' meeting to be held at the end of April 2011.

### **Our Relationship with Our Executive Officers and Members of the Board of Directors**

There are no specific provisions governing the Bank's relationship with its Executive Officers and the members of the Board of Directors, other than those obligations established by law. There is no family relationship between our Executive Officers and the members of the Board of Directors.

### **Family Ties Between the Directors, as well as Between the Directors and Our Principal Shareholder**

There are family ties among certain members of the Board of Directors. Benjamin Steinbruch and Elisabeth Steinbruch Schwarz are siblings, and Clarice Steinbruch is cousin of Benjamin Steinbruch and Elisabeth Steinbruch Schwarz.

### Principal Shareholders

As of the date of this Offering Circular, our fully subscribed and paid-up capital stock was R\$1,314,887,840.72, which was represented by 3,013,727,308 common shares, of which 2,846,621,893 were Common Shares A and 167,105,415 were Common Shares B. All shares are book-entry and registered without par value.

The table below shows the names and the equity interest of shareholders with an equity interest equal to or greater than 5% of our capital stock, as of the date of this Offering Circular.

<u>Shareholder</u>	<u>Common Shares A</u>	<u>Common Shares B</u>	<u>Equity Interest (%)</u>
Elizabeth S.A. Indústria Têxtil .....	2,637,758,410	-	87.5
International Finance Corporation.....	208,863,483	167,105,415	12.5
<b>Total</b> .....	<b>2,846,621,893</b>	<b>167,105,415</b>	<b>100.0</b>

*Elizabeth S.A. Indústria Têxtil.* We are a part of the Vicunha Group, and are directly controlled by Elizabeth S.A. Indústria Têxtil, which holds 87.5% of the shares of stock issued by us. The Vicunha Group is a successful conglomerate, which has operated for more than 40 years in Brazil. The Vicunha Group also invests in other sectors, such as textiles, steel, energy, agro-business, transportation and real estate. Currently, the Vicunha Group's most important investments are in Vicunha Têxtil, one of the largest textile producer in Latin America, and the CSN, one of the leading Latin-American steel companies, both of which are controlled by members of the Vicunha Group. The Vicunha Group's history and reputation for success, along with its financial expertise and ability to generate new business have contributed significantly to the success and growth of our business and results and will, we believe, continue to do so.

*International Finance Corporation.* The IFC is an international organisation that was created in 1956 for the purpose of fostering the economic development of its member countries by encouraging private enterprise in such countries, particularly in those that are less developed. The IFC is a member of the World Bank group, which also includes the International Bank for Reconstruction and Development, International Development Association, and the Multilateral Investment Guarantee Agency.

In addition to the Investment Agreement, the IFC entered into a Shareholders' Agreement and a Put Option Agreement with our principal shareholder, as described below.

The IFC has also granted us a 7-year loan of up to R\$55.9 million, and underwritten a *reais* indexed note issued by us in the amount of U.S.\$40 million.. See "Related Party Transactions."

#### *Shareholders' Agreement*

On June 21, 2007, our principal shareholder and the IFC entered into a Shareholders' Agreement, in connection with the Investment Agreement. The Shareholders' Agreement will remain in effect as long as the IFC is our shareholder. Under the Shareholders' Agreement, the IFC has a right to veto certain matters that are to be submitted to the shareholders for approval at a shareholders' meeting, as long as it holds at least 5% of common shares.

These matters include the following: (i) any amendment to our articles of incorporation, or any measure which may otherwise alter or modify the rights, privileges or preferences attached to the shares held by the IFC; (ii) authorisation or issuance of any share or share equivalent having a preference and/or classification higher than that of the shares held by the IFC; (iii) (a) any transactions involving a consolidation, split-up, spin-off, merger, and any corporate reorganisation involving a change in the Bank's equity control, and (b) disposal of all or any substantial part of our assets, business and operations; (iv) any decrease in our capital stock; (v) any voluntary



liquidation, judicial dissolution or bankruptcy, reorganisation or other similar insolvency proceeding commenced by us or by any of our controlled companies; or (vi) any change in the nature of our business.

The Shareholders' Agreement also regulates the terms and conditions governing the elections of the members of the Board of Directors, which shall comprise at least six and no more than seven members. Pursuant to the Shareholders' Agreement, one member shall be elected by the IFC as long as it holds at least 5% of our common shares, four members, at least, shall be elected by our principal shareholder, and two independent members shall be elected by our principal shareholder.

As long as the IFC is our shareholder, certain other matters are subject to a special quorum corresponding to 75% of our voting capital. This is in accordance with the voting agreement between the IFC and our principal shareholder, as set out in the Shareholders' Agreement. This special quorum requirement is applicable in the event of approval by the shareholders at a shareholders' meeting, and in the event of approval by our Board of Directors, including the favourable vote by (i) a majority of the Board of Directors' independent members and the member elected by the IFC, or (ii) only the member elected by the IFC.

#### *Put Option Agreement*

In connection with the IFC's investment, a Put Option Agreement was executed under which the IFC was granted a put option by our principal shareholder. The put option relates to shares held by the IFC and issued by the Bank, and it may be exercised at any time between (1) December 1, 2012 and June 13, 2014 for Class A Shares and (2) March 31, 2014 and June 30, 2016 for Class B Shares. The put option, however, may be exercised by the IFC at any time before or after such period upon the occurrence of any of the following events: (i) non-performance by the Bank or our principal shareholder of their relevant obligations to the IFC if such non-performance is not remedied within 30 days; (ii) the Bank's liquidation; or (iii) the occurrence of any event giving rise to a reproachable practice.

The price to be paid to the IFC under the put option is the following:

#### Class A Put Shares

- (i) if no Liquidity Event has occurred after the IFC Original Subscription, the price to be paid by the Put Counterparties to IFC for each Class A Put Shares shall be the higher of:
  - (A) 110% of the Per Share Book Value of the Class A Put Shares calculated based on the most recent audited financial statements of the Issuer (or at IFC's option, the most recent unaudited financial statements of the Issuer) as converted into Dollars based on the Dollar Equivalent in effect on the day in which the Put Notice is delivered by IFC, provided that if the Put Notice is received by the Put Counterparties after 1:00 p.m. (Brazilian time), the Dollar Equivalent to be applied shall be the Dollar Equivalent of the first subsequent Business Day; and
  - (B) the price paid by IFC for such shares converted into Dollars based on the Dollar Equivalent of the date of the relevant subscription; or
- (ii) if (1) a Liquidity Event has occurred after the IFC Original Subscription, or (2) the Put Option is exercised by IFC as a result of a Trigger Event, the price to be paid by the Put Counterparties to IFC for each Class A Put Shares shall be the higher of:
  - (A) 120% of the Per Share Book Value of the Class A Put Shares calculated based on the most recent audited financial statements of the Issuer (or at IFC's option, the most recent unaudited financial statements of the Issuer) as converted into Dollars based on the Dollar Equivalent in effect on the day in which the Put Notice is delivered by IFC, regardless of stock price performance, provided that if the Put Notice is received by the Put Counterparties after 1:00 p.m. (Brazilian time), the Dollar Equivalent to be applied shall be the Dollar Equivalent of the first subsequent Business Day; and

- (B) the price paid by IFC for such shares converted into Dollars based on the Dollar Equivalent of the date of the relevant subscription, regardless of stock price performance.

#### Class B Put Shares

- (iii) in any case, the price to be paid by the Put Counterparties to IFC for each IFC Class B Put Share shall be equivalent to the Entry Multiple paid by IFC upon subscription of each Class B Put Share multiplied by the Per Share Book Value of the Class B Put Shares calculated based on the most recent audited financial statements of the Issuer (or at IFC's option, the most recent unaudited financial statements of the Issuer) as converted into Dollars based on the Dollar Equivalent in effect on the day in which the Put Notice is delivered by IFC, regardless of stock price performance, provided that if the Put Notice is received by the Put Counterparties after 1:00 p.m. (Brazilian time), the Dollar Equivalent to be applied shall be the Dollar Equivalent of the first subsequent Business Day; and
- (iv) in any case, the price to be paid by the Put Counterparties to ALAC for each ALAC Class B Put Share shall be equivalent to the Entry Multiple paid by ALAC upon subscription of each Class B Put Share multiplied by the Per Share Book Value of the Class B Put Shares calculated based on the most recent audited financial statements of the Issuer (or at ALAC's option, the most recent unaudited financial statements of the Issuer) as converted into Dollars based on the Dollar Equivalent in effect on the day in which the Put Notice is delivered by ALAC, regardless of stock price performance, provided that if the Put Notice is received by the Put Counterparties after 1:00 p.m. (Brazilian time), the Dollar Equivalent to be applied shall be the Dollar Equivalent of the first subsequent Business Day.

#### **Dividend Policy**

In accordance with quorums required by law and our articles of incorporation, our shareholders may approve a distribution of dividends and/or interest on our own equity based on our annual or semi-annual financial statements. The level of any distribution will depend on a number of factors, such as our operating income, financial condition, funding requirements, prospects and any other factors that our Board of Directors and shareholders may deem relevant.

Furthermore, under the subscription agreement executed with IFC, we may only (i) distribute dividends or make any distribution (other than a mandatory dividend pursuant to our articles of incorporation or applicable law, and dividends paid as our shares), (ii) purchase, redeem or otherwise acquire shares of its own issuance or stock options thereon, if the following conditions are both met:

- the proposed payment or distribution is made from the retained earnings account (excluding any amounts resulting from a reappraisal of our assets); and
- no event of default or potential event of default, as defined in the subscription agreement, has occurred or may occur as a result of such distribution, purchase, redemption or acquisition.

We have fixed a minimum mandatory dividend in our articles of incorporation at a minimum of 25% of adjusted net income, as prescribed by Brazilian corporate law. We may pay an amount equivalent to interest on our own equity, which is attributable to the minimum mandatory dividend and also considered a mandatory dividend advance.

#### **Interest on Equity**

Since January 1, 1996, Brazilian companies have been authorised to pay interest on equity to holders of equity securities as an alternative to dividends. Brazilian companies are able to treat those payments as a deductible expense for the purposes of calculating corporate income tax and, since 1998, social contribution tax. The payment of interest should be recommended by the Board of Directors and it must be approved by the shareholders at a shareholders' meeting. The rate applied in calculating interest on equity must not exceed the prorated daily variation of the Long-term Interest Rates (*Taxa de Juros de Longo Prazo*, or "TJLP").

The amount of the tax deduction permitted each year is also limited to the greater of:

- 50% of our net income (after the deduction of the provision for social contribution on net income, but before the calculation of the provision for income tax and the interest on equity) for the period in respect of which the payment is made; and
- 50% of the aggregate of accumulated earnings and profits reserve accounts as of the beginning of the year in respect of which the payment is made.

For accounting purposes, besides being reflected in the statement of results to be tax deducted, the burden is reverted before the calculation of the net income based on the financial statements and deducted from the equity in the same way it should be done for dividends.

## **Related Party Transactions**

Because the relevant restrictions on transactions with related parties are set forth under banking legislation (which provide that we may neither extend any loans or advances to, nor guarantee any transactions of, our controlling shareholders, controlled companies, officers or our officers' relatives up to the second degree), the approval of transactions not subject to statutory restriction requires the analysis of our credit committee and the approval of our Executive Committee or Board of Directors. Such approvals must be made in accordance with our Articles of Incorporation and Brazilian corporate law.

Market conditions are checked during our credit committee's meetings, where our funding policy is defined, listing the amounts and relevant fees applying both to customers in general and to any related party. Pursuant to Brazilian corporate law, our officers are precluded from intervening in any corporate resolution in which they have a conflict of interest with the Bank, and in any resolution on such matters passed by other officers. In observance of the foregoing, any transactions we perform with related parties are performed on an arm's-length basis and on market terms.

Certain members of the Vicunha Group maintain time deposits with us at market rates. As of December 31, 2012, these companies maintained a total of R\$630.0 million in deposits, representing 9.7% of the Bank's total deposits.

For further information on the restrictions to which financial institutions are subject, see "The Brazilian Financial System and Industry Regulation—Principal Limitations and Restrictions on the Exercise of Specific Activities."

### **Indexed Note and Syndicated Loan (IFC A Loan)**

On August 13, 2008, we entered into an Amended and Restated Subscription and Loan Agreement with IFC, in the amount of R\$55,863,000 due to mature on July 15, 2014. This loan is evidenced by an indexed note, fully underwritten by IFC, denominated in reais, in the amount of R\$55,863,000. The note has a 6-year term. Payment of principal is to be made at the end of the term (bullet payment).

### **Indexed Note and Syndicated Loan (IFC A Loan)**

On July 22nd 2010, we entered into a new A Loan Agreement with IFC, in the amount of USD 15 million due to mature on July 15, 2014.

### **Credit Assignment to Elizabeth S.A.**

In March 2011, we entered into an agreement to assign a portion of our credit portfolio to Elizabeth S.A. for the value of R\$25 million. In connection with this assignment, we also entered into an agreement with Elizabeth to provide collection services in respect of the assigned credits.

### **Credit Assignment to Taquari Participações S.A.**

In September 2012, it was transferred without risk retention for the company Taquari Participações SA, loans written off as losses of R\$87.7 million. This transaction generated a gain of R\$12.0 million, net of tax effects.

### 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. In the past, the Central Bank has occasionally intervened to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to permit the *real* to float freely or whether it will intervene in the exchange rate market through the re-establishment of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially. Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are significant reasons to foresee a material imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad.

Prevailing regulations permit that all proceeds from the export of goods or services be kept in bank accounts outside of Brazil and eventually used abroad, without any need to repatriate such amounts. Permission to maintain 100.0% of such funds abroad was originally introduced by CMN Resolution No. 3,548, dated March 12, 2008, ("Resolution 3,548/08") which amended CMN Resolution No. 3,389, dated August 4, 2006. CMN Resolution 3,548/08 was then revoked by CMN Resolution No. 3,719, dated April 30, 2009, which was revoked by CMN Resolution No. 4,051, dated January 26, 2012 ("Resolution 4,051/12").

Based on Resolution 4,051/2012, local exporters are now allowed to keep up to 100.0% of their export proceeds abroad and freely dispose of such amounts (including transferring them to foreign third parties), with due regard for the rules issued by the CMN and by the Federal Revenue Office in Brazil. Such proceeds held abroad, however, cannot be lent by Brazilian exporters.

In the past, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluation, periodic mini devaluation during which the frequency of adjustments ranged from a daily to a monthly basis, floating exchange rate systems, exchange controls and dual exchange rate markets. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or intervene in the exchange rate market by returning to a currency band system or otherwise. The *real* may depreciate or appreciate substantially against the U.S. dollar. Exchange rate fluctuations may adversely affect our financial condition. We are subject to foreign exchange rate instability, including devaluation of the *real*, which may adversely affect us.

The following table shows the selling rate for U.S. dollars on the commercial rate exchange market for the periods and dates indicated:

<u>Period Ended</u>	<b>Closing Selling Rates of Nominal R\$ per U.S.\$1.00</b>			
	<u>Low</u>	<u>High</u>	<u>Average(1)</u>	<u>Period End</u>
December 31, 2011 .....	1.54	1.90	1.67	1.87
December 31, 2012 .....	1.69	2.13	1.95	2.04

*Note:*—

(1) Actual average for the period.

*Source:* Central Bank.

<u>Month Ended</u>	<u>Low</u>	<u>High</u>	<u>Average</u> <sup>(1)</sup>	<u>Period End</u>
		<b>(R\$ per U.S. Dollar)</b>		
October 2012.....	2.02	2.04	2.03	2.03
November 2012.....	2.03	2.10	2.07	2.11
December 2012.....	1.99	2.11	2.04	2.04
January 2013.....	1.99	2.05	2.03	1.99
February 2013.....	1.96	2.00	1.97	1.98
March 2013.....	1.94	2.02	1.98	2.02

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*Note:—*

(1) Actual average for the period.

*Sources: Central Bank; Bloomberg.*

### **Enforcement of Judgments Against Foreign Persons**

We are organized under the laws of Brazil. All of our directors and officers and certain advisers named herein reside outside the United States. As a result, it may not be possible, or it may be difficult, for you to effect service of process upon us or these persons within the United States, or to enforce judgments obtained in the United States courts against us or them, including those predicated upon the civil liability provisions of the federal securities laws of the United States.

We have been advised by our Brazilian counsel, Campos Mello Advogados, that a judgment of a United States court for civil liabilities predicated upon the federal securities laws of the United States may be enforced in Brazil, subject to certain requirements described below. Such counsel has advised that a judgment against us or the persons described above obtained outside Brazil would be enforceable in Brazil without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*, or “STJ”). That confirmation should occur if the foreign judgment:

- fulfils all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court in the jurisdiction where the judgment took place (i) after proper service of process on the parties, which must be made in accordance with the law where the foreign judgment took place and not contrary to the applicable Brazilian law, or (ii) after sufficient evidence of the failure of the defendant to attend court has been given, as established pursuant to applicable law;
- is final and not subject to appeal;
- is authenticated by a Brazilian consular office in the country where the foreign judgment was issued (unless such authentication is expected by international treaties executed between Brazil and the country in which such competent court is located) and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian public policy, good morals, national sovereignty or public morality, and does not contain any provision which for any reason would not be upheld by the courts of Brazil.

Notwithstanding the foregoing, we cannot assure you that confirmation will be obtained, that the process described above will be conducted in a timely manner or that Brazilian courts will enforce a monetary judgment for violation of the U.S. securities laws with respect to the Notes.

We have also been advised that:

- original actions in connection with the securities may be brought in Brazilian courts and that, subject to applicable law, Brazilian courts may enforce liabilities in such actions against us; and
- the ability of a creditor or the other persons named above to satisfy a judgment by attaching certain assets of ours is limited by provisions of Brazilian law.

Pursuant to Article 835 of the Brazilian Code of Civil Procedure, a plaintiff, whether Brazilian or non-Brazilian, who resides outside or leaves Brazil during the course of litigation in Brazil must post a bond to guarantee the payment of the defendant’s legal fees and court expenses if the plaintiff owns no real property in Brazil that could secure that payment, except in the case of enforcement of extrajudicial enforceable instruments (*ações de execução de título extrajudicial*), enforcement of foreign judgments that have been duly confirmed by the STJ, or counterclaims as established under Article 836 of the Brazilian Civil Code of Procedure. This bond must be in an amount sufficient to satisfy the payment of court fees and the defendant’s attorney fees, as determined by a Brazilian judge.

## **Taxation**

**PROSPECTIVE PURCHASERS OF THE NOTES 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.**

### **European Union Savings Directive**

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 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.

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.

### **Brazilian Tax Considerations**

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the Notes by a non-resident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the Notes.

Prospective purchasers should consult their tax advisers as to the specific tax consequences of acquiring, holding and disposing of the Notes, in particular with regard to Notes having special features such as Notes denominated in a foreign currency as to the holder.

As a general rule, non-Brazilian residents are taxed in Brazil only when income is derived from Brazilian sources, or in the case of disposal of Brazilian assets. The applicability of Brazilian taxes with respect to payments on the Notes will depend on the origin of such payments and the domicile of the recipient of such payments.

### ***Payments on the Notes made through our Grand Cayman branch***

Based on the fact that, as a general rule, our Cayman Islands Branch is considered to be domiciled outside of Brazil for tax purposes, payments of income made to a non-resident holder by our Grand Cayman branch with respect to Notes issued through it will not generally be subject to withholding or deduction with respect to Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with resources held by such entity outside of Brazil.

According to Law No. 10,833/03, of December 30, 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 nonresident



holder to a resident or person domiciled in Brazil or another non-resident. Based on the fact that the Notes are issued abroad, by its Grand Cayman branch, the Bank believes that gains on the sale or other disposal of the Notes made outside Brazil by a non-resident holder, other than a branch or a subsidiary of a Brazilian resident, would not fall within the definition of assets located in Brazil for the purpose of Law No. 10,833/03 and consequently 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.

Generally, 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 taxes applicable to the ownership, transfer or disposition of the Notes, 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 states.

### ***Payments on the Notes made from Brazil***

If the Bank is unable to make payments on the Notes from the Cayman Islands the Bank may make payments from Brazil. Interest (including any original issue discount, as applicable) payable by the Bank to a non-resident holder with respect to the Notes is generally subject to withholding income tax at a rate of 15% or such other lower rate as provided for in an applicable tax treaty between Brazil and another country. According to Normative Ruling 252 of December 3, 2002, or Normative Ruling 252/02, in the event that a non-resident holder is domiciled in a tax haven jurisdiction (that is deemed to be a jurisdiction which does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20%, or where the laws impose restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the effective beneficiary of income attributed to non-residents pursuant to Section 23 of Law No. 11,727 enacted on June 23, 2008 and §4° of Law No. 9,430 enacted on December 27, 1996), payments of interest (including any original issue discount, as applicable) are also subject to withholding in respect of Brazilian income tax at the general rate of 15%. However, pursuant to Article 8 of Law No. 9,779 of January 19, 1999, if the relevant average term of the Notes is less than 96 months, the rate applicable to a non-resident holder domiciled in a tax haven jurisdiction is 25% (Article 691, IX of Decree No. 3,000 of March 26, 1999 and Article 1, IX of Law No. 9,481 of August 13, 1997). Accordingly, there is a risk that tax authorities could seek to apply the rate of 25%. As described under “Description of the Notes—Additional Amounts,” certain holders, regardless of the rate of Brazilian withholding tax to which they are subject, may be entitled to receive additional amounts to ensure that they receive the same amounts as they would have received without such withholding.

Additionally, Law No. 11,727 created the concept of a privileged tax regime. Pursuant to Law No. 11,727, a jurisdiction will be considered a privileged tax regime if it (i) does not tax income or tax 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 a said territory or (b) conditioned upon the non-exercise of a substantial economic activity in the country or a said territory; (iii) does not tax or taxes proceeds generated abroad 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. Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that the above mentioned concept of “privileged tax regime” should apply only for the purposes of Brazilian transfer pricing and thin capitalization rules, it is unclear whether such concept would also apply to investments carried out in the Brazilian financial and capital markets for purposes of this law.

There is no judicial guidance as to the application of Law No. 11,727 of June 24, 2008 and, accordingly, the Bank is unable to predict whether the Brazilian Internal Revenue Service or the Brazilian courts may decide that the “privileged tax regime” concept shall be applicable to deem a Non-Resident Holder as a Tax Haven Resident when carrying out investments in the Brazilian financial and capital markets. However, in the event that the “privileged tax regime” concept is interpreted to be applicable to transactions carried out in the Brazilian financial and capital markets, this tax law would accordingly result in the imposition of taxation to a Non-Resident Holder that meets the privileged tax regime requirements in the same way applicable to a Tax Haven Resident.

Generally, there are no stamp, transfer or other similar taxes in Brazil with respect to the transfer, assignment or sale of the Notes outside Brazil. Under Brazilian law, the transfer of a note by gift made by a Securityholder (whether or not a Non-Resident Holder) and involving a resident of Brazil may be subject to Gift Tax (Imposto Sobre Transmissão Causa Mortis e Doação de Quaisquer Bens ou Direitos) imposed on the beneficiary by the state in which such Brazilian resident resides.

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 are subject to the Tax on Foreign Exchange Transactions – IOF/Câmbio. Currently, the IOF/Câmbio rate is 0.38% for nearly all transfers of foreign currency into reais. According to Section 15-A, XXII of the Decree No. 6,306, the liquidation of exchange transactions in connection with foreign financing or loans dated as from December 5, 2012, for inflow of proceeds into Brazil, are subject to IOF/Câmbio at a zero percent rate. The rate is 6% for the conversion of foreign loans with an average term of less than 360 days into Brazilian currency. However, the federal Government may increase the current IOF/Câmbio rate at any time, up to a maximum rate of 25%. Any such new rate would only apply to future foreign exchange transactions.

### **Cayman Islands Tax Considerations**

*The following summary is based upon the tax laws of the Cayman Islands as in effect on the date hereof and, except as provided below, is subject to any prospective or retroactive change in Cayman Islands law. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.*

Payments of interest and principal 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 and gains derived from the disposal of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have 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.

### **Material United States Federal Income Tax Considerations**

**TO ENSURE COMPLIANCE WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE PURCHASERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM THEIR OWN TAX ADVISORS.**

*The following is a summary of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes by a "U.S. holder" (as defined below), except as provided in "—Fungible Issue" below, which is applicable to all holders. This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Pricing Supplement may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. The summary deals only with Notes that will be purchased by U.S. holders and held as capital assets. This summary is based upon United States laws, including the Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury Regulations ("Treasury Regulations") (final, proposed and temporary) promulgated thereunder, rulings, judicial decisions and administrative pronouncements, all as currently in effect, and all of which are subject to change or changes in interpretation, possibly on a retroactive basis. The summary is included herein for general information only, and there can be no assurance that the U.S. Internal*

*Revenue Service (the “IRS”) will take a similar view of the U.S. federal income tax treatment of an investment in the Notes as described herein.*

*In particular, this summary does not purport to deal with persons in special tax situations, such as U.S. expatriates, persons subject to the alternative minimum tax, financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities electing to mark their investments to market, tax-exempt entities, banks, persons holding Notes as a hedge against currency risks or as a position in a straddle for tax purposes, persons owning (directly, indirectly or by attribution) 10% or more of the outstanding share capital or voting power of the Issuer, persons whose functional currency is not the U.S. dollar or persons that purchase Notes for a price other than the respective issue prices of the Notes (except where otherwise specifically noted). Moreover, this summary deals only with Notes with a term less than 30 years, and does not address the tax treatment to U.S. holders of bearer Notes. This summary does not address any U.S. federal tax laws (such as the estate tax or gift tax) other than U.S. federal income tax laws.*

*Bearer Notes are not being offered to U.S. holders. A U.S. holder who owns a Bearer Note may be subject to limitations under U.S. federal income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Code.*

Prospective purchasers of Notes should consult the relevant Pricing Supplement for any additional discussion of tax consequences that may be relevant to that particular issuance of Notes and are urged to consult their own tax advisors in determining the particular U.S. federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of Notes.

As used herein, the term “U.S. holder” means a beneficial owner of a Note that is (i) a citizen or individual resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States, 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, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the income of which is otherwise subject to U.S. federal income taxation regardless of its source.

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a member generally will depend upon the status of the member and the activities of the partnership (or the entity treated as a partnership for U.S. federal income tax purposes). A member of a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) that holds Notes is urged to consult its tax advisor regarding the specific tax consequences of the purchase, ownership and disposition of the Notes.

For purposes of this summary, a “Foreign Currency Note” means a Note on which all payments which a U.S. holder is entitled to receive are denominated in, or determined by reference to, a single Foreign Currency. For this purpose, Foreign Currency means a currency or currency unit other than U.S. dollars.

### ***Fungible Issue***

The Issuer may, without the consent of the holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate issue for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with original issue discount (“OID”) even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences would cause the additional Notes to be non-fungible with the initial outstanding Notes and may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

### ***U.S. Federal Income Tax Characterisation of the Notes***

The characterisation of a Series or Tranche of Notes may be uncertain and will depend on the terms of those Notes. The determination of whether a Note represents debt, equity, or some other instrument or interest is based on all the

relevant facts and circumstances. There may be no statutory, judicial or administrative authority directly addressing the characterisation of some of the types of Notes that are anticipated to be issued under the Programme.

In connection with the foregoing, depending on the terms of a particular Series or Tranche of Notes, such Notes may not be characterised as debt for U.S. federal income tax purposes despite the form of the Notes as debt instruments. For example, Notes of a Series or Tranche may be more properly characterised as equity, or as representing an undivided proportionate ownership interest in the assets of, and share of the liabilities of the Issuer. Additional alternative characterisations may also be possible. Further possible characterisations, if applicable, may be discussed in the relevant Pricing Supplement.

The remainder of this discussion assumes that the Notes will be treated as debt for U.S. federal income tax purposes. No rulings will be sought from the IRS regarding the characterisation of any of the Notes issued hereunder for U.S. federal income tax purposes. Each U.S. holder should consult its own tax advisor about the proper characterisation of the Notes for U.S. federal income tax purposes and consequences to such holder of acquiring, owning or disposing of the Notes.

## **U.S. Currency Notes**

### ***Payments of Interest***

Except as described below under “— Original Issue Discount,” payments of interest on a Note (including additional amounts paid with respect to withholding tax on such Note, if any, and withholding tax on payments of such additional amounts) generally will be taxable to a U.S. holder as ordinary interest income at the time such payments are received or are accrued in accordance with the U.S. holder’s method of tax accounting. If a U.S. holder becomes subject to withholding tax and additional amounts are paid to such U.S. holder, for U.S. federal income tax purposes, U.S. holders would be treated as having received the amount of Brazilian taxes withheld by the Issuer with respect to a Note, and as then having paid over the withheld taxes to the Brazilian taxing authorities. Thus, in such a circumstance, a U.S. holder may be required to report income in an amount greater than the actual amount of interest and/or OID (as described below) due to such holder on the Notes.

Subject to certain limitations and assuming that the U.S. holder does not elect to deduct Brazilian taxes for any taxable year, a U.S. holder will generally be entitled to a credit against its U.S. federal income tax liability for Brazilian income taxes withheld by the Issuer. If a U.S. holder elects to deduct Brazilian taxes for any taxable year, such U.S. holder must deduct rather than credit all foreign taxes for such taxable year. For purposes of the foreign tax credit limitation, foreign source income is classified in one of two “baskets,” and the credit for foreign taxes on income in any such basket is limited to U.S. federal income tax allocable to that income. Interest and OID on the Notes generally will be attributable to the “passive income” basket. In certain circumstances a U.S. holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for Brazilian taxes imposed on a payment of interest if the U.S. Holder has not held the Notes for at least 16 days during the 31-day period beginning on the date that is 15 days before the date on which the right to receive the payment arises. Since a U.S. holder may be required to include OID on the Notes in its gross income in advance of any withholding of Brazilian income taxes from payments attributable to the OID (which would generally occur only when the Note is repaid or redeemed), a U.S. holder may not be entitled to a credit or deduction for these Brazilian income taxes in the year the OID is included in the U.S. holder’s gross income, and may be limited in its ability to credit or deduct in full the Brazilian taxes in the year those taxes are actually withheld by the Issuer. The rules for foreign tax credits are complex and prospective purchasers should consult their tax advisors concerning the foreign tax credit implications to them of the payment of any Brazilian taxes.

### ***Original Issue Discount***

The following summary is a general discussion of the material U.S. federal income tax consequences to U.S. holders of the ownership and disposition of Notes issued with OID (“Discount Notes”) under applicable Treasury Regulations (the “OID Regulations”). This summary does not discuss Notes that are characterised as “contingent payment debt instruments” for U.S. federal income tax purposes, which are subject to special provisions with respect to the U.S. federal income tax treatment of OID.

A Note, other than a Note with a term of one year or less (a “Short-Term Note”), will be treated as issued with OID if the amount by which the Note’s stated redemption price at maturity exceeds its issue price is more than a *de minimis* amount. Generally, a Note’s “issue price” will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The “stated redemption price at maturity” of a Note is the sum of all payments provided by the Note other than “qualified stated interest” payments.

In general, under a *de minimis* exception a Note is not treated as issued with OID if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of  $\frac{1}{4}$  of 1% of its stated redemption price at maturity multiplied by the number of complete years to its maturity date from its original issue date (or its weighted average maturity if the Note is an installment obligation).

The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually at a single fixed rate of interest or a variable rate (in the circumstances described below under “— Variable Rate Notes”). In addition, under the OID Regulations, if a Note bears interest for one or more initial accrual periods at a rate below the rate applicable for the remaining term of such Note (e.g., Notes with teaser rates or interest holidays), and if the greater of either the resulting foregone interest on such Note or any “true” discount on such Note (i.e., the excess of the Note’s stated principal amount over its issue price) equals or exceeds a specified *de minimis* amount as determined under the OID Regulations, then the stated interest on the Note would be treated in whole or in part as OID rather than qualified stated interest.

A U.S. holder of a Discount Note must include OID in income as ordinary interest income for U.S. federal income tax purposes as it accrues generally under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. holder’s regular method of tax accounting. In general, the amount of OID included in income by the initial U.S. holder of a Discount Note is the sum of the daily portions of OID with respect to such Discount Note for each day during the taxable year (or portion of the taxable year) on which the U.S. holder held the Discount Note. The daily portion of OID on any Discount Note is determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be of any length and may vary in length over the term of the Discount Note, *provided that* each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day or first day of an accrual period. The amount of OID allocable to each accrual period generally is equal to the difference between (i) the product of the Discount Note’s “adjusted issue price” at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the sum of the issue price of the Discount Note plus the amount of OID allocable to all prior accrual periods minus the amount of any prior payments on the Discount Note that were not qualified stated interest payments. Under these rules, U.S. holders generally will have to include in taxable income increasingly greater amounts of OID in successive accrual periods.

### ***Acquisition Premium***

A U.S. holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “acquisition premium”) and that does not make the election described below under “Election to Treat All Interest as Original Issue Discount,” is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

### ***Amortisable Bond Premium***

A U.S. holder that purchases a Note for more than the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, may elect to amortise the bond premium. If a U.S. holder

makes such an election, the amount of interest on the Note otherwise required to be included in the U.S. holder's income will be reduced each year by the amount of amortisable bond premium allocable to such year on a constant yield to maturity basis (except to the extent Treasury Regulations may provide otherwise). If a Note is redeemable prior to maturity, the amount of amortisable bond premium will be determined with reference to the amount payable on the earlier redemption date if such determination results in a smaller premium attributable to the period ending on the earlier redemption date. The election to amortise bond premium cannot be revoked without the consent of the IRS. Amortised bond premium will reduce the U.S. holder's tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium will thereafter apply to bond premium on certain other debt instruments that the U.S. holder then owns or thereafter acquired at a premium, and the election may have different tax consequences depending on when the debt instruments were issued or acquired. Special rules apply to (a) certain Notes payable in or by reference to a foreign currency (discussed below under "—Foreign Currency Notes") and (b) certain Notes with contingent interest payments. A U.S. holder that does not elect to take bond premium (other than acquisition premium) into account will recognise a loss when the Note matures as described below in "—Sale, Retirement or Other Taxable Disposition of U.S. Currency Notes." A U.S. holder should consult its tax advisor before making an election to amortise bond premium.

### ***Market Discount***

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "Market Discount Note") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's "revised issue price," exceeds the amount for which the U.S. holder purchased the Note by at least 0.25% of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an installment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "de minimis market discount." For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. holder.

Market discount will accrue on a straight-line basis unless the U.S. holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Prospective purchasers are urged to consult their tax advisors if such purchasers purchase a Note at a discount or premium from the Note's issue price. In this event, the Notes so purchased may be subject to special U.S. federal income tax rules relating to the treatment of market discount or acquisition or bond premium.

### ***Election to Treat All Interest as Original Issue Discount***

A U.S. holder may elect to include in gross income all interest that accrues on a note using the constant yield method discussed above under "—Original Issue Discount," with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium.

Generally, this election will apply only to the Note with respect to which it is made and must be made for the taxable year in which the U.S. holder acquired the Note. However, if a Note subject to an election has amortisable bond premium, the U.S. holder will be deemed to have made an election to apply amortisable bond premium against interest for all debt instruments with amortisable bond premium, other than debt instruments the interest on which is excludible from gross income, that such U.S. holder holds as of the beginning of the taxable year to which the election applies or any taxable year thereafter. Additionally, if a U.S. holder makes the election for a Market Discount Note, such U.S. holder will be treated as having made the election discussed above under “—Market Discount” to include market discount in income currently over the life of all debt instruments that such U.S. holder currently owns or later acquires. A U.S. holder may not revoke any election to apply the constant yield method to all interest on a Note or the deemed elections with respect to amortisable bond premium or Market Discount Notes without the consent of the IRS. U.S. holders are urged to consult their tax advisors regarding the advisability of making this election.

### ***Variable Rate Notes***

A Note that provides for a variable rate of interest (a “Variable Rate Note”) may qualify as a “variable rate debt instrument” if the conditions described below are met. In the event a Variable Rate Note qualifies as a “variable rate debt instrument” then payments of interest on such Variable Rate Note are treated as described above under “—Payments of Interest.”

Under the OID Regulations, Variable Rate Notes are subject to special rules whereby a Variable Rate Note will qualify as a “variable rate debt instrument” if:

such Variable Rate Note’s issue price does not exceed the total noncontingent principal payments by more than the lesser of: .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or

- 15% of the total noncontingent principal payments; and

such Variable Rate Note provides for stated interest, compounded or paid at least annually, only at:

- one or more qualified floating rates,
- a single fixed rate and one or more qualified floating rates,
- a single objective rate, or
- a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A Variable Rate Note provides for stated interest at a qualified floating rate if:

- variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which such Variable Rate Note is denominated; or

the rate is equal to such a rate multiplied by either:

- a fixed multiple that is greater than 0.65 but not more than 1.35, or
- a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate; and
- the value of the rate on any date during the term of such Variable Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If such Variable Rate Note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of such Variable Rate Note, the qualified floating rates together constitute a single qualified floating rate.

A Variable Rate Note will not have a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of such Variable Rate Note or are not reasonably expected to significantly affect the yield on such Variable Rate Note.

A Variable Rate Note provides for stated interest at a single objective rate if:

- the rate is not a qualified floating rate,
- the rate is determined using a single, fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the Bank or a related party, and
- the value of the rate on any date during the term of such Variable Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A Variable Rate Note will not be treated as providing for stated interest at an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of such Variable Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of such Variable Rate Note's term.

An objective rate as described above is a qualified inverse floating rate if:

- the rate is equal to a fixed rate minus a qualified floating rate; and
- the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

A Variable Rate Note will also provide for stated interest at a single qualified floating rate or an objective rate if interest on such Variable Rate Note is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

- the fixed rate and the qualified floating rate or objective rate have values on the issue date of such Variable Rate Note that do not differ by more than 0.25% or
- the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

In general, if a Variable Rate Note provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period, all stated interest on such Variable Rate Note will be accounted for as described above under “—Payments of Interest.” In this case, the amount of OID, if any, is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield reasonably expected for such Variable Rate Note.

If a Variable Rate Note constitutes a variable rate debt instrument but does not provide for stated interest at a single qualified floating rate or a single objective rate, and also does not provide for interest payable at a fixed rate other than a single fixed rate for an initial period, a U.S. holder generally must determine the interest and OID accruals on such Variable Rate Note by:

- determining a fixed rate substitute for each variable rate provided under such Variable Rate Note,



- constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above,
- determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and
- adjusting for actual variable rates during the applicable accrual period.

When a U.S. holder determines the fixed rate substitute for each variable rate provided under a Variable Rate Note, it generally will use the value of each variable rate as of the issue date of such Variable Rate Note or, for an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on such Variable Rate Note.

If a Variable Rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and also provides for stated interest at a single fixed rate other than at a single fixed rate for an initial period, a U.S. holder generally must determine interest and OID accruals by using the method described in the previous paragraph. However, a Variable Rate Note will be treated, for purposes of the first three steps of the determination, as if such Variable Rate Note had provided for a qualified floating rate, or a qualified inverse floating rate, rather than the fixed rate. The qualified floating rate, or qualified inverse floating rate, that replaces the fixed rate must be such that the fair market value of such Variable Rate Note as of the issue date approximates the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate, or qualified inverse floating rate, rather than the fixed rate.

If a Variable Rate Note (such as a Note the payments on which are determined by reference to an index) does not qualify as a variable rate debt instrument under the OID Regulations, then the Variable Rate Note would be treated as a contingent payment debt obligation under applicable Treasury Regulations. The U.S. federal income tax treatment of any Variable Rate Notes or other Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Pricing Supplement.

### ***Short-Term Notes***

In general, an individual or other cash basis U.S. holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. holders and certain other U.S. holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. holder not required and not electing to include OID in income currently, any gain recognised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity (i.e., all payments of interest are treated as OID). A U.S. holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. holder at the U.S. holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### ***Sale, Retirement or Other Taxable Disposition of U.S. Currency Notes***

Generally, upon the sale, retirement or other taxable disposition of a Note, a U.S. holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, retirement or other taxable disposition (other than amounts representing accrued and unpaid qualified stated interest, which is taxable as interest) and such U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally equals the cost of the Note, increased by the amount of any OID (and market discount, if an election has been made to include

currently) included in the U.S. holder's income with respect to the Note and decreased by the amount of any payments that are not qualified stated interest. Except to the extent described above under "— Market Discount" or "— Short Term Notes," or below under "—Foreign Currency Notes," any gain or loss recognised on a sale, retirement or other taxable disposition of a Note, other than amounts attributable to accrued and unpaid qualified stated interest, will generally be treated as long-term capital gain or loss if at the time of the sale, retirement or other taxable disposition, the Note was held for more than one year. In the case of a U.S. holder who is an individual (or non-corporate U.S. holder), long term capital gains, if any, generally will be subject to U.S. federal income taxation at preferential rates. The deductibility of capital losses is subject to significant limitations.

Gain recognised by a U.S. holder on the sale, retirement or taxable disposition of a Note generally will be treated as U.S. source income. Consequently, if Brazilian tax is imposed on such gain, the U.S. holder will not be able to use the corresponding foreign tax credit, unless the holder has other foreign-source income of the appropriate type in respect of which the credit may be used. The U.S. foreign tax credit rules are very complex and your ability to credit foreign taxes may be subject to various limitations. Accordingly, prospective purchasers should consult their own advisors with respect to the application of these rules to their particular circumstances.

### ***Substitution of Issuer***

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. holder could be required to recognise gain or loss for U.S. federal income tax purposes (under the rules set forth above under "—Sale, Retirement or Other Taxable Disposition of U.S. Currency Notes") equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. holder's tax basis in the Notes. U.S. holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

### ***Optional Redemption***

In general, if a Note provides for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies and the timing and amounts of the payments that comprise each payment schedule are known as of the issue date of such Note a U.S. holder must determine the yield and maturity of such Note by assuming that the payments will be made according to the payment schedule, if any, that is significantly more likely than not to occur.

Notwithstanding the general rules for determining yield and maturity, if a Note is subject to contingencies, and either a U.S. holder or the Issuer has an unconditional option or options that, if exercised, would require payments to be made on such Note under an alternative payment schedule or schedules, then (i) in the case of an option or options that the Issuer may exercise, the Issuer will be deemed to exercise or not exercise an option or combination of options in the manner that minimises the yield on such Note and (ii) in the case of an option or options that a U.S. holder may exercise, it will be deemed to exercise or not exercise an option or combination of options in the manner that maximises the yield on such Note. If both a U.S. holder and the Issuer hold options described in the preceding sentence, those rules will apply to each option in the order in which they may be exercised.

If a contingency, including the exercise of an option, actually occurs or does not occur contrary to an assumption made according to the above rules, then except to the extent that a portion of a Note is repaid as a result of this change in circumstances and solely to determine the amount and accrual of OID, a U.S. holder must redetermine the yield and maturity of such Note by treating such Note as having been retired and reissued on the date of the change in circumstances for an amount equal to such Note's adjusted issue price on that date.

### **Foreign Currency Notes**

As used herein, "Foreign Currency" means a currency or currency unit other than U.S. dollars. The discussion below relates to the Notes the payment of which is denominated in, or determined by reference to, a single Foreign Currency.

### ***Interest — Cash Method***

A U.S. holder who uses the cash method of accounting for U.S. federal income tax purposes and who receives a payment of interest on a Note (other than OID, the treatment of which is described below under “— Interest — Accrual Method”) will be required to include in income the U.S. dollar value of the Foreign Currency payment, based on the spot exchange rate on the date of receipt, regardless of whether the payment is in fact converted to U.S. dollars at that time. A cash method U.S. holder generally will not realise exchange gain or loss on the receipt of the interest payment but may have exchange gain or loss attributable to a subsequent disposition of the Foreign Currency so received which will be U.S. source ordinary income or loss.

### ***Interest — Accrual Method***

A U.S. holder who uses the accrual method of accounting for U.S. federal income tax purposes, or who otherwise is required to accrue interest prior to receipt, will be required to include in income the U.S. dollar value of the amount of interest income 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 such accrued income will be determined by translating such income at the average rate of exchange in effect for the interest accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the U.S. holder’s taxable year. The average rate of exchange for an interest accrual period (or partial period) is the simple average of the spot exchange rates for each business day of such period or other average rate for the period that is reasonably derived and consistently applied by the U.S. holder. A U.S. holder may elect, however, to translate such accrued interest income at the spot rate on the last day of the interest accrual period, or the last day of the accrual period in that taxable year in the case of a partial accrual period. If the last day of the interest accrual period is within five business days of the date of receipt of the accrued interest, a U.S. holder may translate such interest at the spot rate on the date of receipt. The above election will apply to all debt obligations held by the U.S. holder at the beginning of the first taxable year to which the election applies and may not be revoked without the consent of the IRS. U.S. holders should consult their own tax advisors as to the advisability of making the above election.

A U.S. holder will recognise exchange gain or loss (which will be treated as U.S. source ordinary income or loss) with respect to accrued interest on the date such interest is received, and which generally will not be treated as an adjustment to interest income or expense. The amount of ordinary income or loss so recognised will equal the difference, if any, between the U.S. dollar value of the Foreign Currency payment received (determined on the basis of the spot rate on the date such payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during such accrual period (as determined above), regardless of whether such U.S. holder actually converts the payment into U.S. dollars.

### ***Original Issue Discount***

In the case of a Discount Note that is also a Foreign Currency Note, a U.S. holder must determine OID allocable to each accrual period in units of the Foreign Currency using the constant yield method described in “— U.S. Currency Notes — Original Issue Discount” above. Accrued OID is translated into U.S. dollars and the U.S. holder will recognise Foreign Currency gain or loss on the accrued OID in the same manner as described above in “— Interest — Accrual Method.” Such U.S. holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) when it receives an amount attributable to OID in connection with a payment of interest or the sale, retirement or other taxable disposition of such Note. U.S. holders are urged to consult their tax advisors regarding the interplay between the application of the OID and foreign currency exchange gain or loss rules.

### ***Amortisable Bond Premium (including Acquisition Premium)***

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a Foreign Currency will be computed in units of the Foreign Currency, and any such bond premium that is taken into account currently will reduce interest income in units of the Foreign Currency. On the date bond premium offsets interest income, a U.S. holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date and on the date the Notes were acquired by the U.S. holder. A U.S. holder that does not elect to take bond premium (other than acquisition premium) into

account currently will recognise a loss when the Note matures, as described below under “—Sale, Retirement or Other Taxable Disposition of Foreign Currency Notes.”

### ***Market Discount***

Market Discount on a Note that is denominated in, or determined by reference to, a Foreign Currency, will be accrued in the Foreign Currency. If the U.S. holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder’s taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

### ***Sale, Retirement or Other Taxable Disposition of Foreign Currency Notes***

As discussed above under “—U.S. Currency Notes—Sale, Retirement or Other Taxable Disposition of U.S. Currency Notes,” a U.S. holder will generally recognise gain or loss on the sale, retirement, or other taxable disposition of a Note equal to the difference between the amount realised on the sale, retirement or other taxable disposition and its adjusted tax basis in the Note.

A U.S. holder’s initial tax basis in a Foreign Currency Note will be the U.S. dollar value of the Foreign Currency amount paid for such Foreign Currency Note, determined on the date of such purchase. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis U.S. holder (or, upon election, an accrual basis U.S. holder) will determine the U.S. dollar value of the amount paid by translating the Foreign Currency payment at the spot rate on the settlement date of the purchase. (If an accrual basis taxpayer makes such an election, the election must be applied consistently to all debt instruments from year to year and cannot be revoked without the consent of the IRS.) The amount of any subsequent adjustments to such holder’s tax basis will be the U.S. dollar value of the Foreign Currency amount of the adjustment, determined as discussed herein. A U.S. holder’s adjusted tax basis in a Foreign Currency Note generally will equal the cost of the Foreign Currency Note to such holder, increased by the amount of any OID (and market discount, if an election has been made to include currently) previously included in income by the holder with respect to such Foreign Currency Note and reduced by any payments that are not qualified stated interest previously received by the holder.

If a U.S. holder receives Foreign Currency on a sale, retirement or other taxable disposition of a Foreign Currency Note, the amount realised will be based on the U.S. dollar value of the Foreign Currency on:

- the date of disposition, if it is a cash basis taxpayer and the relevant Foreign Currency Notes are not traded on an established securities market, as defined in the applicable Treasury Regulations;
- the date of disposition, if it is an accrual basis taxpayer that does not elect to use the settlement date; or
- the settlement date for the sale, if it is a cash basis taxpayer, or an accrual basis taxpayer that so elects, and the relevant Foreign Currency Notes are traded on an established securities market, as defined in the applicable Treasury Regulations. (If an accrual basis taxpayer makes such an election, the election must be applied consistently to all debt instruments from year to year and cannot be revoked without the consent of the IRS.)

Except as discussed in the following paragraph with respect to exchange gains or losses, any gain or loss recognised upon the sale, retirement or other taxable disposition of a Foreign Currency Note generally will be capital gain or loss, except to the extent attributable to accrued but unpaid qualified stated interest and accrued market discount or attributable to changes in the exchange rates as described below and will be treated as long-term capital gain or loss if at the time of sale, retirement or other taxable disposition the Foreign Currency Note was held for more than one year. If the U.S. holder is an individual (or other non-corporate U.S. holder), any long-term capital gain generally

will be subject to U.S. federal income taxation at preferential rates. The deductibility of capital losses is subject to significant limitations.

Gain or loss realised upon the sale, retirement or other taxable disposition of a Foreign Currency Note that is attributable to fluctuations in currency exchange rates will constitute exchange gain or loss and will be taxable as U.S. source ordinary income or loss. Such foreign exchange gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. holder on the sale, retirement or other taxable disposition.

A U.S. holder generally will have a tax basis in any Foreign Currency received as interest or on the sale, retirement or other taxable disposition of a Foreign Currency Note equal to the U.S. dollar value of such Foreign Currency at the spot rate on the date when the interest is so received or at the time of the sale, retirement or other taxable disposition. Any exchange gain or loss recognised by a U.S. holder on a subsequent conversion or other disposition of Foreign Currency, generally, will be treated as ordinary income or loss.

If a Note is issued in circumstances where interest payments on the Note are denominated in or determined by reference to one currency and the principal portion of the Note may be denominated in or determined by reference to another currency (“Dual Currency Notes”), the applicable Pricing Supplement will discuss the material U.S. federal income tax consequences in respect of these features to holders.

Gain recognised by a U.S. holder on the sale, retirement or taxable disposition of a Note generally will be treated as U.S. source income. Consequently, if Brazilian tax is imposed on such gain, the U.S. holder will not be able to use the corresponding foreign tax credit, unless the holder has other foreign-source income of the appropriate type in respect of which the credit may be used. The U.S. foreign tax credit rules are very complex and your ability to credit foreign taxes may be subject to various limitations. Accordingly, prospective purchasers should consult their own advisors with respect to the application of these rules to their particular circumstances.

### ***Substitution of Issuer***

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. holder could be required to recognise gain or loss for U.S. federal income tax purposes (under the rules set forth above under “—Sale, Retirement or Other Taxable Disposition of Foreign Currency Notes”) equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. holder’s tax basis in the Notes. U.S. holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

### **Foreign Source Income**

For U.S. foreign tax credit purposes, qualified stated interest, OID, and any additional amounts paid with respect to a Note will be treated as foreign source income, subject to various classifications and other limitations. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. holders are urged to consult their own tax advisors regarding the availability of U.S. foreign tax credits with respect to any Brazilian taxes withheld from payment.

### **Tax Return Disclosure Requirement**

A U.S. holder may be required to report a sale, retirement or other taxable disposition of its Notes (or, in the case of an accrual basis U.S. holder, a payment of accrued interest) on IRS Form 8886 (Reportable Transaction Disclosure Statement) if it recognises a foreign exchange loss that exceeds U.S.\$50,000 in a single taxable year from a single transaction, if such U.S. holder is an individual or trust, or higher amounts for other non-individual U.S. holders. U.S. holders are urged to consult their own tax advisors in this regard.

Certain individual U.S. holders are required to report information with respect to their investment in Notes not held through a custodial account with a U.S. financial institution to the IRS. Investors who fail to report required

information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of these requirements on their investment in the Notes.

### **Medicare Contribution Tax on Unearned Income**

U.S. holders that are individuals or estates, or trusts that do not fall into a special class of trusts that are exempt from such tax (as well as certain foreign estates and trusts), are subject to a 3.8% tax on the lesser of (1) such holder's "net investment income" for the relevant taxable year and (2) the excess of such holder'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 holder's net investment income will generally include its gross interest income and its net gains from the disposition of the Notes, unless such interest 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). If you are a holder that is an individual, estate or trust, you are urged to consult your tax advisor regarding the applicability of this tax to your income and gains in respect of your investment in the Notes.

### **U.S. Information Reporting and Backup Withholding**

Payments of principal, premium, if any, and interest (including OID) on, and proceeds from the sale, retirement or other taxable disposition of the Notes may be subject to information reporting to the IRS and possible backup withholding. Backup withholding of U.S. federal income tax may apply to payments made in respect of the Notes to holders who are not exempt recipients and who fail to provide certain identifying information (such as the holder's taxpayer identification number) and make any other required certification. Payments made in respect of the Notes to a U.S. holder must be reported to the IRS, unless the U.S. holder is an exempt recipient or otherwise establishes an exemption. U.S. persons who are required to establish their exempt status, generally, must provide an IRS Form W-9.

Any amounts withheld under the backup withholding rules from a payment to a U.S. holder would be allowed as a refund or a credit against such U.S. holder's U.S. federal income tax, *provided that* the required information is furnished to the IRS in a timely manner.

**THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL INCOME OR OTHER TAX LAWS.**

## Subscription and Sale

Notes may be sold from time to time by the Issuer to or through any one or more of the Dealers. The arrangements under which the Notes may from time to time be agreed to be sold by the Issuer to or through the Dealers are set out in the Dealer Agreement dated April 23, 2004 (as amended or supplemented from time to time, the “Dealer Agreement”) and made between the Issuer and the Dealers. Any agreement for the sale of Notes will, inter alia, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers, the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes.

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Issuer. The Dealers and their affiliates may enter into derivative and structured transactions with clients, at their request, in connection with the Notes. The Dealers and their affiliates may also purchase some of the Notes to hedge their risk exposure in connection with such transactions. Also the Dealers and their affiliates may acquire the Notes for their own proprietary account. Such transactions may have an effect on demand, price and other terms of an offering of the Notes. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with each offering, the Dealers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Dealers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Dealers is concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Dealers purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

### 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 certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Notes are 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 Code and regulations thereunder.

Where the D Rules are specified in the relevant Pricing Supplement as being applicable to any tranche of Notes, each Dealer will be required to represent, undertake and agree that:

- (i) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) or such successor regulations intended to be issued under Section 4701 of the Code, in accordance with U.S. Internal Revenue Service Notice 2012-20 (the “D Rules”) that it has not offered or sold and during the restricted period it

will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person and it has not delivered and that it will not deliver within the United States or its possessions definitive Bearer Notes that are sold during the restricted period;

- (ii) it has, and throughout the restricted period, it will have in effect, procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (iii) if it is a United States person, it is acquiring the Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6) or the applicable successor regulations under Section 4701 Code;
- (iv) with respect to each affiliate that acquires Notes from it for the purpose of offering or selling such Notes during the restricted period, it either: (a) repeats and confirms the representations and agreements contained in sub-paragraphs (i), (ii) and (iii) of this paragraph on such affiliate's behalf; or (b) agrees that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in sub-paragraphs (i), (ii) and (iii) of this paragraph;

Where the C Rules are specified in the relevant Pricing Supplement as being applicable to any tranche of Notes, the Notes must, in accordance with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer represents, warrants and undertakes to the Issuer that, in connection with the original issuance of the Notes:

- (i) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and
- (ii) it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if it or such prospective purchaser is within the United States or its possessions and will not otherwise involve its United States office in the offer and sale of Notes.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Principal Paying Agent shall notify such Dealer when all such Dealers have so certified) (the "Distribution Compliance Period"), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the Distribution Compliance Period (other than resales pursuant to Rule 144A) a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering of such tranche 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.



This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States and for the listing of Notes on the Luxembourg Stock Exchange. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person other than any qualified institutional buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker dealer affiliate. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any qualified institutional buyer in the United States to any U.S. person or to any other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer, is prohibited.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each dealer has represented and agreed, and each further dealer that is appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer to the public of any Notes in the Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public of such Notes in the Relevant Member State:

- (a) if the applicable Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such 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, provided that any such prospectus has subsequently been completed by the applicable Pricing Supplement contemplating such Non-exempt Offer in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or the relevant Pricing Supplement, as applicable;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

*provided that* no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, 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 Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means European Council Directive 2003/71/EC (and any amendment thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the “2010 PD Amending Directive” means Directive 2010/73/EU.

## **United Kingdom**

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 issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer; (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 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 the Issuer; 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 the Notes in, from or otherwise involving the United Kingdom.

## **Brazil**

Each Dealer has 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, placement, distribution or negotiation of securities in the Brazilian capital markets regulated by Brazilian legislation.

**The Notes have not been and will not be registered in Brazil for the purpose of their offering or distribution therein or abroad. Subsequent trading of the Notes in private transactions is not subject to registration in Brazil to the extent such trading does not qualify as a public offering or distribution. Persons wishing to offer or acquire the Notes within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.**

## **The Cayman Islands**

The Dealer has agreed that it has not offered (whether directly or indirectly) or sold, and will not offer (whether directly or indirectly) or sell, any Notes issued by Banco Fibra’s Cayman Islands Branch to the public in the Cayman Islands. Notes may be issued to ordinary non-resident and exempted companies of the Cayman Islands.

The Dealer has agreed to comply with any direction of the Registrar of Companies in and for the Cayman Islands prohibiting (a) the sale of Notes in the Cayman Islands or (b) any invitation in the Cayman Islands to subscribe for the Notes.

## **Hong Kong**

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

## **Singapore**

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

## **Switzerland**

This Offering Circular does not constitute an issue prospectus pursuant to Article 652a or Article 1,156 of the Swiss Code of Obligations. The Notes will not be listed on the SIX Swiss Exchange and, therefore, this Offering Circular may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Securities may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the Notes with a view to distribution. The prospective investors must be individually approached by a Dealer from time to time.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan, Law No. 25 of 1948 (the “Securities and Exchange Law”) and the Notes will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exception from the registration requirements or otherwise in compliance with the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

## **Colombia**

The Notes have not been offered or sold, and will not be offered or sold, in Colombia other than in compliance with applicable laws.

## **Chile**

This is not a public offering in Chile and has not been registered with the Superintendency of Securities. The offering is made on a strictly private basis to not more than 10 persons in Chile.

## **Peru**

The Notes and the information contained in this Offering Circular are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure

obligations set forth therein will not be applicable to the issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this Offering Circular have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian National Supervisory Commission of Companies and Securities (*Comisión Nacional Supervisora de Empresas y Valores*) nor have they been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein.

The Notes have been registered with the Superintendency of Banking, Insurance and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) so that they could qualify as eligible instruments and be acquired by Peruvian Private Pension Funds Administrators.

### **General**

No action has been or will be taken in any jurisdiction by the Dealer or the Issuer that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular, or any part thereof including any Pricing Supplement, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells, or delivers Notes or has in its possession or distributes this Offering Circular, or any part thereof including any Pricing Supplement, or any such other material, in all cases at its own expense. The Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will also ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions (except to the extent that such actions are the actions of the Issuer). The Issuer will have no responsibility for, and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it may make any acquisition, offer, sale or delivery.

No Dealer is authorised to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Offering Circular, including the applicable Pricing Supplement, and any other information or document supplied.

Selling restrictions may be modified by the agreement of the Issuer and the relevant Dealers. Any such modification will be set out in the Pricing Supplement issued in respect of each Tranche to which it relates or in a supplement to this Offering Circular.

## Transfer Restrictions

### Rule 144A Notes

Each purchaser of Restricted Notes within the United States pursuant to Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a qualified institutional buyer within the meaning of Rule 144A (“QIB”), (b) acquiring such Restricted Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Restricted Notes has been advised, that the sale of such Restricted Notes to it is being made in reliance on Rule 144A.
2. It understands that the Restricted 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 laws.
3. It understands that such Restricted Notes, unless the Issuer determines 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 (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 UNDER THE SECURITIES ACT 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.

4. The Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Restricted 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.
5. It understands that the Restricted Notes offered in reliance on Rule 144A will be represented by the DTC Restricted Global Note. Before any interest in the DTC Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the DTC Unrestricted Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the 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 Unrestricted Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Unrestricted Notes in resales prior to the expiration of the Distribution Compliance Period, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted 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 an affiliate of the Issuer or a person acting on behalf of such an affiliate.
2. It understands that such Unrestricted 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 Unrestricted Notes except (a) until the expiration of the Distribution Compliance Period, in the United States, 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 or after the expiration of the Distribution Compliance Period, pursuant to an exemption from registration under the Securities Act.
3. It understands that such Unrestricted Notes, unless otherwise determined by the Issuer 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 (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.”
4. The Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
5. It understands that the Unrestricted Notes offered in reliance on Regulation S will be represented by the DTC Unrestricted Global Note. Prior to the expiration of the Distribution Compliance Period, before any interest in the DTC Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the DTC Unrestricted Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
6. Delivery of the Unrestricted Notes may be made against payment therefor on or about a date which will occur more than three business days after the date of pricing of the Unrestricted Notes. Pursuant to Rule 15c6-1 under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”), trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Unrestricted Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Unrestricted Notes may initially settle on or about a date which will occur more than three business days after the date of pricing of the Unrestricted Notes to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Unrestricted Notes who wish to trade Unrestricted Notes on the date of pricing or the next succeeding business day should consult their own adviser.

### **Independent Accountants**

The consolidated financial statements of Banco Fibra S.A and its subsidiaries as of December 31, 2012 and 2011, and for the years then ended prepared in accordance with Brazilian GAAP, included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers Auditores Independentes, independent accountants, in accordance with Brazilian and international standards on auditing, as stated in their reports included elsewhere in this Offering Circular.

PricewaterhouseCoopers Auditores Independentes are registered with and are a member of the *Conselho Regional de Contabilidade*, the accountancy regulatory body of the State of São Paulo, under number 2SP000160/O-5, the IBRACON and the CVM under the *Ato Declaratório* 5038/98.

## **Description of Certain Differences between Brazilian GAAP and International Financial Reporting Standards**

### **General Information**

This Offering Circular contains financial statements and other financial information relating to us, which has been prepared in accordance with Brazilian GAAP. There are certain differences between accounting principles under Brazilian GAAP and IFRS, which incorporates all existing International Accounting Standards (“IAS”), that are relevant to the financial information presented herein. The following is a summary of some of the principal 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 following considerations:

Future 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 such future events, ongoing work and decisions of the regulatory bodies that promulgate Brazilian GAAP and IFRS; which can affect future comparisons between Brazilian GAAP and IFRS, including the current differences disclosed in this summary. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the respective pronouncements of the Brazilian and international accounting professional bodies. Prospective investors should also 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.

Accounting principles and standards used in Brazil, and applied by us in the presentation of our consolidated financial statements included in this Offering Circular, are established in accordance with Brazilian GAAP. Accounting principles and standards, in the case of listed companies under the jurisdiction of the CVM, are complemented by certain additional instructions issued by the CVM. In addition, the CVM and other regulatory entities such as the Central Bank, the banking regulator, and the Superintendência de Seguros Privados (Private Insurance Superintendency or SUSEP), the insurance sector regulator, provide additional industry specific guidelines.

Brazilian standards differ in certain material respects from IFRS. Unlike IFRS, under Brazilian GAAP, there are no specific principles relating to certain matters such as: business combinations; financial instruments; accounting and reporting for research and development costs and leases. The level of disclosure in the Notes to the financial statements may also differ significantly.

### **Inflation Accounting Principles**

Under Brazilian GAAP, because of the highly inflationary conditions that historically existed in Brazil, a form of inflation accounting, referred to as monetary correction, has been in use for many years to minimize the impact of distortions in financial statements caused by inflation.

Inflation accounting adjustments were required from 1977 until December 31, 1995. Therefore, our financial statements prepared in accordance with Brazilian GAAP for periods after December 31, 1995 do not include the effects of inflation accounting, except for effects on depreciation and the amortization of assets that were monetarily corrected prior to January 1, 1996, and any gains or losses resulting from the sale or other disposition of such assets.

Under IFRS, inflation accounting following the methodology prescribed by IAS 29 (Financial Reporting in Hyperinflationary Economies) is required for companies which report in local currency and which operate in hyper-inflationary economies in which cumulative inflation has exceeded 100% over the preceding three years. However, other indicators prescribed by IAS 29 can be taken into consideration along with the 100% three year inflation limit. As a result, considering this quantitative limit for IFRS purposes, financial statements should be adjusted for the effects of inflation to the date on which the Brazilian economy was no longer deemed to be hyper-inflationary, which was as from July 1, 1997. However, in practice considering all other factors January 1, 1997 is also an acceptable date.



## **Business Combinations, Purchase Accounting and Goodwill**

Under Brazilian GAAP and in accordance with Central Bank rules, accounting standards do not specifically address business combinations and purchase accounting, however, a purchase method is generally applied based on book values. Goodwill or negative goodwill on the acquisition of a company is computed as the difference between the cost of the acquisition and its underlying book value. The excess of cost over the net book value of an acquired company is recorded as goodwill in accordance with one of the following classifications: step up basis of the assets due to differences in the carrying values and fair values of the assets, future profitability and others. Such goodwill is amortized as follows, depending on its classification:

Step up basis of the assets: Goodwill or negative goodwill should be amortized proportionally over the remaining estimated useful lives of the corresponding assets of the acquired company;

Future profitability: Goodwill or negative goodwill should be amortized during the time expected results are to be realized. In this case, the amortization period should not exceed ten years; and

Others (non justified goodwill based on the economic factors): Goodwill should be expensed immediately. Negative goodwill should not be amortized to income until the related investment is sold or written off.

For tax purposes, the amortization of goodwill or negative goodwill is generally not included in the determination of taxable income for the period. However, pursuant to certain tax strategies relating to corporate restructurings, the amortization of goodwill and negative goodwill are included in the determination of taxable income. The minimum amortization period accepted is 5 years, depending on how the goodwill is classified.

IFRS 3 (Business Combinations) requires, among other things, that all business combinations, except those involving entities under common control be accounted for by a single method – the purchase method. 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.

In addition, IFRS 3 sets out detailed guidelines as to the recognition of intangible assets. Under IFRS 3 and IAS 38, “Goodwill and Other Intangible Assets,” goodwill and other intangible assets with indefinite lives are no longer amortized. Under IFRS 3, the amount of goodwill will be evaluated for impairment annually, and in the case of impairment, the recorded value will be adjusted accordingly. If assets other than cash are distributed as part of the purchase price, such assets should be valued at fair value. Finite-lived intangible assets are generally amortized on a straight-line basis over the estimated period benefited. The client deposit and relationship portfolio intangible asset is recorded and amortized over a period in which the asset is expected to contribute directly or indirectly to the future cash flows. Negative goodwill is recognized as a gain in the statement of operations.

## **Leasing Agreements as Capital Leases**

Under Brazilian GAAP, all leases are treated as operating leases and the expense is recognized at the time each lease installment falls due. The leasing operations are record on the basis of accounting principles prescribed by the Central Bank.

Under IFRS 17 (“Leases”), lease capitalization is required if certain conditions are met. Under this accounting method, both an asset and an obligation are recorded in the financial statements and the asset is depreciated in a manner consistent with the normal depreciation policy for owned assets.

## **Useful Economic Life of Tangible Assets**

Accounting practices established by the Central Bank relating to the depreciation of permanent assets state that minimum annual fees must be applied monthly for the depreciation of the original corrected value of the goods.

In accordance with IFRS (IAS 16), the depreciable value of an asset shall be appropriated systematically through its estimated life cycle. The estimated life cycle of an asset is determined on a case by case basis based on the

experience of the entity with similar assets. However, it should be considered that the life cycle of an asset is defined in terms of the expected utility of the asset to the entity.

### **Impairment of Financial Instruments (Loan Operations)**

Under Brazilian GAAP, the impairment of financial instruments registered with amortized costs (loans) is calculated in accordance with CMN Resolution No. 2,682, which classifies each loan transaction according to its risk level, using the total value of each loan transaction as a basis for calculating the minimum provision required to be made as a percentage of the relevant risk level (expected loss methodology). Furthermore, financial institutions frequently register additional provisions, calculated at their discretion and quantified by conducting stress tests on the loan portfolio to determine adequate provisioning levels.

In accordance with IFRS (IAS 39), the Bank must, at the end of each financial period, evaluate any evidence that a financial asset or group of assets is in impairment. Furthermore, IAS 39 specifies that a loss event includes any event which occurs following the initial recognition of the asset which would impact the projected future cash flows that the asset or the group of assets will generate. Also in accordance with IAS 39, the definition of impairment states that the amount of loss is measured as the difference between the accounting value of the asset and the actual value of future cash flows less the effective interest rate (covering all future cash flows, including recovery of losses).

### **Income Taxes**

Under Brazilian GAAP, the methods adopted for the recording of income taxes are similar to U.S. GAAP, 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, within Brazilian GAAP, considerable judgment. In general, tax credits are recognized when there is evidence of future realization, in a continuous operation. Generally, tax credits can be accounted for only if (a) the loss has been caused by identified and unusual events and the probability of new and similar events is unlikely; (b) there is an expectation of generating positive results for subsequent periods, as well as generation of tax liabilities to permit the realization of tax credits, properly verified through a technical analysis, and (c) there are tax obligations accounted for as liabilities, up to the limit and corresponding to the same period, in order to apply the tax credit. Tax credit recognition rules prohibit maintaining the tax credit whenever there has been a tax loss for the last three-years or available evidence indicates that realization is unlikely. Also, some additional requirements should be met for a public company, such as (i) additional supporting analysis to recognize deferred tax assets, (ii) the condition to recognize deferred tax assets based on a history of profitability, presenting taxable income in three out of the past five fiscal years (including the year being reported), and (iii) the prohibition of recognizing deferred tax assets if it is expected that they will be realized in more than 10 years as from the reporting date.

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 recognized with a corresponding charge or credit to income for differences between the financial and tax basis of assets and liabilities at 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 are recognized as assets. The deferred tax asset shall be recognized to the extent that it is probable that future taxable profit will result in the realization of such deferred tax asset.

### **Accounting for Guarantees by a Guarantor**

Under Brazilian GAAP, guarantees granted to third parties are recorded as off balance sheet items. When fees are charged for issuing guarantees the fees are recognized as income over the guarantee period. When the guaranteed party has not honored its commitments, the guarantor assumes a liability and a credit is recognized against the guaranteed party representing the right to seek reimbursement, with recognition of related allowances for losses when considered appropriate.

Under IFRS 37 "Provisions, Contingent Liabilities and Contingent Assets," a guarantee shall be recognized when: (a) a present obligation (legal or constructive) exists a result of a past event; (b) it is probable that the outflow of

resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligations.

### **Credit Assignment**

Under Brazilian GAAP when a financial asset is sold or transferred, the result of the operation is recognized at that time. According to IFRS - IAS 39 "Derecognition of Financial Assets," when there is a retention of the risks and benefits of the transferred assets, such assets should not be excluded from the balance sheet.

Transfers of assets with retention of all or most of the risks and benefits include, for example, assignments with joint liability and the sale of securities with repurchase agreements.

### **Effective Interest Rate**

Under Central Bank rules, loans and receivables and other assets and liabilities, which shall be measured at amortised cost using the nominal interest rates, do not take into consideration the transaction costs paid, fees and commissions received at the origination of a financial asset or financial liabilities carried at amortised cost.

Loans and receivables (as defined) and other financial assets and liabilities, which shall be measured at amortised cost, shall be calculated using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18, Revenue), transaction costs and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

### **Earnings Per Share**

Under Brazilian GAAP earnings per share is normally computed on the number of shares outstanding at the end of the year, although it is acceptable to use a weighted-average basis.

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 by 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 do be presented is basic EPS and diluted EPS for each class of ordinary share. EPS based on alternative measures of earnings also may be presented if required. 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.

### General Information

- (I) The Bearer Notes and Registered Notes represented by a DTC Unrestricted Global Note have been accepted for clearance through Euroclear and Clearstream, Luxembourg. As applicable, the Common Code for each Series of Notes, together with the relevant ISIN number and the CUSIP and/or CINS numbers, will be contained in the Pricing Supplement relating thereto. In addition, the Issuer will make an application with respect to any Notes of a Registered Series to be accepted for trading in book-entry form by DTC. Acceptance by DTC of each Tranche of a Registered Series will be confirmed in the applicable Pricing Supplement. The Notes will be issued on a continuing basis to or through Standard Bank Plc and other dealers appointed in respect of the Programme or a particular Tranche. The address of Standard Bank Plc is 25 Dowgate Hill, London EC4R 25B, United Kingdom.
- (II) The establishment of the Programme and the execution of all documents in connection therewith was authorised by a resolution of the Board of Directors (Diretoria) of the Issuer dated March 1, 2004. Subsequent updates of the Programme have been approved by the Board of Directors (Diretoria) of the Issuer in 2006, 2009, 2010, 2011 and 2013. All consents, approvals, authorisations and other orders of all regulatory authorities under the laws of Brazil have been given for the establishment of the Programme, the issue of Notes under the Programme and the execution of the Trust Deed and the Agency Agreement and are in full force and effect, except that the issue of any Series of Notes under the Programme payment for which is to be made from Brazilian sources requires: (i) the application for the Registro de Operações Financeiras (“ROF”) with the Central Bank through the Sistema de Informações do Banco Central (“SISBACEN”) at least five days prior to the Issue Date of such Series of Notes under the Programme, and the registration with the Central Bank of the schedule of payments in respect of such Series of Notes under the Programme as soon as practicable after the Issue Date of the Notes; and (ii) the obtaining of a further authorisation from the Central Bank to make payments outside Brazil other than scheduled payments of principal, interest, commissions, fees and expenses as contemplated by the ROF or to make any payment of principal, interest, commissions, fees and expenses provided for in the ROF earlier than the due date thereof or more than 120 days after their due date. Reference to the consents, approvals and authorisations obtained by the Issuer in connection with each issue of Notes under the Programme and performance thereunder is included in the Pricing Supplement prepared in connection with such issue.
- (III) Neither the Issuer nor any subsidiary of the Issuer is involved in any litigation or arbitration proceedings which are material in the context of the Programme or the issue of Notes under the Programme nor, so far as the Issuer is aware, are any such litigation or arbitration proceedings pending or threatened.
- (IV) The audited consolidated financial statements of the Issuer as of and for the years ended December 31, 2012 and 2011, included elsewhere in this Offering Circular, have been prepared in accordance with Brazilian GAAP. Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or of the Group and no material adverse change in the financial position or prospects of the Issuer or of the Group since December 31, 2012 (the date of the latest audited consolidated financial statements of the Issuer which are included herein).
- (V) We publish our annual consolidated financial statements and our interim semi-annual consolidated financial statements. Copies in English of the latest audited consolidated accounts of the Issuer, the latest interim consolidated accounts of the Issuer, in each case being incorporated in and forming part of this Offering Circular, may be obtained, and copies of the Trust Deed and Pricing Supplements will be available, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes are outstanding. Copies of this Offering Circular and of the Trust Deed will be available for inspection at the registered office of the Issuer. Copies of this Offering Circular and copies of the constitutive documents of the Issuer will be obtainable at the office of the Paying Agent in Luxembourg.
- (VI) The Issuer has agreed that, for so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

**Form of Pricing Supplement**

*The following is the form of Pricing Supplement which is annexed to the Dealer Agreement and which can be used to give details of any particular Tranche of Notes.*

**Pricing Supplement dated [ ]**

[BANCO FIBRA LOGO]

**BANCO FIBRA S.A.**

[(acting through its principal office in Brazil)]

[(acting through its Cayman Islands branch)]

**U.S.\$1,000,000,000 Medium-Term Note Programme**

**Series No: [ ]**

[Currency and Amount [Description of Notes] [due ]]

issued by

Banco Fibra S.A. (acting through its [principal office in Brazil] [Cayman Islands branch])  
(incorporated in the Federative Republic of Brazil with limited liability)

Issue price: [ ]

[DEALER NAME(S)]

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Offering Circular dated April [-], 2013. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular.

This Pricing Supplement does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the Notes or the distribution of this Pricing Supplement in any jurisdiction where such action is required.

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) [AND THE NOTES COMPRISE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS]. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE [OFFERED OR SOLD/OFFERED, SOLD OR DELIVERED] WITHIN THE UNITED STATES [OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT (“REGULATIONS”))]. THIS PRICING SUPPLEMENT HAS BEEN PREPARED BY THE ISSUER FOR USE IN CONNECTION WITH THE OFFER AND SALE OF THE NOTES OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATIONS [AND WITHIN THE UNITED STATES TO “QUALIFIED INSTITUTIONAL BUYERS” IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”)] [AND FOR LISTING OF THE NOTES ON THE LUXEMBOURG STOCK EXCHANGE]. [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]. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE NOTES AND DISTRIBUTION OF THIS PRICING SUPPLEMENT AND THE REMAINDER OF THE OFFERING CIRCULAR, SEE “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS” CONTAINED IN THE OFFERING CIRCULAR.**

**[THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PRICING SUPPLEMENT OR THE OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.]**

**[TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR 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 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 PERSONS, 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.]**

*[Include whichever of the following apply or specify as “Not Applicable.” 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 Pricing Supplement.]*

- Issuer: [ ]
- [a.] Series Number: [ ]
1. Tranche Number: [ ]  
 (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).
- a. Specified Currency or Currencies Condition 1(d): [ ]
- b. Specified Principal Payment Currency if different from Specified Currency (Condition 1(d)): [ ]
- c. Specified Interest Payment Currency if different from Specified Currency (Condition 1(d)): [ ]
- Aggregate Nominal Amount: [ ]
- a. Series: [ ]
- b. Tranche: [ ]
- [a.] Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
2. Net proceeds: [ ] (*Required only for listed issues*)
- Specified Denominations (Condition 1(b)): [ ]\*
- a. Issue Date (Condition 5(III)): [ ]
- b. Interest Commencement Date: [ ]
- Maturity Date (Condition 6(a)): [*specify date or (for Floating Rate Notes) Specified Interest Payment Date falling in or nearest to the redemption month*]
- Interest Basis (Condition 5): [Fixed Rate (Condition 5(I))]  
 [Floating Rate (Condition 5(II))]  
 [Zero Coupon (Condition 5(IV))]  
 [Index Linked Interest]  
 [Other (*specify*)]  
 (further particulars specified below)]

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\* Notes [(including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and] which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).”

Redemption/Payment Basis (Condition 6(a)):	[Redemption at par] [Index Linked Redemption ( <i>specify</i> )] [Dual Currency ( <i>specify</i> )] [Partly Paid ( <i>specify</i> )] [Instalment ( <i>specify</i> )] [Other ( <i>specify</i> )]
Change of Interest or Redemption/Payment Basis:	[ <i>Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis</i> ]
Put/Call Options (Condition 6(e) and (f)):	[Noteholder Put] [Issuer Call] [(further particulars specified below)]
Status of the Notes (Condition 3):	[Senior/Subordinated] [ <i>Specify status if different from Condition 3</i> ]
Listing and admission to trading:	[Application has been made to admit the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange/Other ( <i>specify</i> )/None]
Method of distribution:	[Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

Fixed Rate Note Provisions (Condition 5(I)):	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
a. Rate(s) of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
b. Interest Payment Date(s):	[ ] in each year [adjusted in accordance with [ <i>specify Business Day Convention and any applicable Business Centre(s) for the definition of "Relevant Business Day"</i> ]/[not adjusted]
c. Fixed Coupon Amount(s):	[ ] per lowest Specified Denomination
d. Broken Amount(s):	[ <i>Insert particulars of any initial or final broken interest amounts</i> ]
e. Day Count Fraction(Condition 5(III)):	[ ] <i>(Day count fraction should be Actual/Actual-ISMA for all fixed rate issues other than those denominated in U.S. dollars, unless otherwise requested)</i>
f. Determination Date(s) (Condition 5(III)):	[ ] in each year [ <i>insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon - only to be completed for any issue where day count fraction is Actual/Actual – ISMA</i> ]
g. Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/ <i>give details</i> ]
Floating Rate Note Provisions (Condition 5(II)):	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph.)</i>



- a. Interest Period(s)/Specified Interest Payment Dates: [ ]
- b. Business Day Convention (Condition 5(III)): [Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- c. Business Centre(s) (Condition 5(III)): [ ]
- d. Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- e. Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [ ]
- f. Screen Rate Determination (Condition 5(II)(b)(i)): [Applicable/Not Applicable]
- i. Interest Determination Date(s) (Condition 5(III)): [ ]
- ii. Primary Source for Floating Rate: [*Specify relevant screen page or "Reference Banks"*]
- iii. Reference Banks (if Primary Source is "Reference Banks"): [*Specify four*]
- iv. Relevant Banking Centre: [*Specify*]
- v. Benchmark and Reference Rate(s): [*LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark and whether bid, offer or mean*]
- g. ISDA Determination (Condition 5(II)(b)(iv)): [Applicable/Not Applicable]
- i. Floating Rate Option: [ ]
- ii. Designated Maturity: [ ]
- iii. Reset Date: [ ]
- iv. ISDA Definitions (if different from those set out in the Conditions): [ ]
- h. Margin(s): [+/-] [ ] per cent. per annum
- i. Minimum Rate of Interest: [ ] per cent. per annum
- j. Maximum Rate of Interest: [ ] per cent. per annum
- k. Day Count Fraction (Condition 5(III)): [ ]
- l. Rate Multiplier: [ ]
- m. 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 (Condition 5(II)(b)): [ ]
- n. Relevant Financial Centre: [ ]
- Zero Coupon Note Provisions [Applicable/Not Applicable]  
(*If not applicable, delete the remaining sub-paragraphs*)

(Conditions 5(IV) and 6(d)):	<i>of this paragraph</i>
a. Amortisation Yield:	[ ] per cent. per annum
b. Reference Price:	[ ]
c. Basis:	[Straightline/Compounded at [ <i>specify</i> ] interval]
d. Day Count Fraction (Condition 5(III)):	[ ]
e. Any other formula/basis of determining amount payable:	[ ]
Index Linked Interest Note Provisions:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph - if applicable, complete terms MUST be set out in this Pricing Supplement)</i>
a. Index/Formula:	[ <i>Give or annex details</i> ]
b. Calculation Agent responsible for calculating the interest due:	[ ]
c. Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[ ]
d. Interest Period(s)/Specified Interest Payment Dates:	[ ]
e. Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other ( <i>give details</i> )]
f. Business Centre(s) (Condition 5(III)):	[ ]
g. Minimum Rate of Interest:	[ ] per cent. per annum
h. Maximum Rate of Interest:	[ ] per cent. per annum
i. Day Count Fraction (Condition 5(III)):	[ ]
Dual Currency Note Provisions:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph - if applicable, complete terms MUST be set out in this Pricing Supplement)</i>
a. Rate of Exchange/Method of calculating Rate of Exchange:	[ <i>Give details</i> ]
b. Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[ ]
c. Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[ ]
d. Person at whose option Specified Currency(ies) is/are payable:	[ ]
e. Day Count Fraction (Condition 5(III)):	[ ]

## PROVISIONS RELATING TO REDEMPTION

- Call Option (Condition 6(e)): [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- a. Optional Redemption Date(s): [ ]
  - b. Optional Redemption Amounts(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Note of [ ] Specified Denomination
  - c. If redeemable in part:
    - i. Minimum nominal amount to be redeemed: [ ]
    - ii. Maximum nominal amount to be redeemed: [ ]
  - d. Notice period\*: [ ]
- Put Option (Condition 6(f)): [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- a. Optional Redemption Date(s): [ ]
  - b. Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Note of [ ] Specified Denomination
  - c. Description of any other Noteholders' option: [ ]
  - d. Deposit period (if other than as set out in the Conditions): [ ]
  - e. Notice period\*: [ ]
- Final Redemption Amount of each Note: [[ ] per Note of [ ] Specified Denomination/Other/See Appendix]
- a. Alternative Payment Mechanism (Condition 7(a) and (b)): [ ]
  - b. Long Maturity Note (Condition 7(e)): [Applicable/Not Applicable]
- Early Redemption Amount:
- a. Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 6(c)) or on an Event of Default (Condition 9) and/or the method of calculating the same (if required or if different from that set out in the Conditions): [ ]

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\* If setting notice periods which are different to those provided in the terms and conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example clearing systems and custodians, as well as any other notice requirements which may apply, for example as between the issuer and the principal paying agent or trustee.

- b. Original Withholding Level (Condition 6(c)): [ ]
- c. Unmatured Coupons to become void (Condition 7(e)): [Yes/No/Not Applicable]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- Form of Notes: [Bearer Notes/Registered Notes]  
[delete as appropriate]
- Bearer Notes**
- a. Temporary or Permanent Global Note: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Bearer Notes in the limited circumstances specified in the Permanent Global Note][Permanent Global Note exchangeable for definitive Bearer Notes in the limited circumstances specified in the Permanent Global Note]
- b. Exchange Date in respect of Temporary Global Note: [Not Applicable/specify date]
- c. Applicable TEFRA or Section 4701 exemption: [C Rules/D Rules/ Not Applicable]
- Registered Notes**
- d. DTC Global Notes or individual Definitive Registered Notes: [DTC Restricted Global Note and/or DTC Unrestricted Global Note available on Issue Date][Individual Definitive Registered Notes available on Issue Date]
- Financial Centre(s) (Condition 7(a)(iii)) 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(iii) and 19(vi) relate]
- Talons for future Coupons to be attached to definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
- Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable /give details]  
(If applicable, complete terms MUST be set out in this Pricing Supplement)
- Details relating to Instalment Notes: [Not Applicable /give details](If applicable, complete terms MUST be set out in this Pricing Supplement)
- Redenomination, renominatisation and reconventioning provisions: [Not Applicable /The provisions annexed to this Pricing Supplement apply]
- Consolidation provisions: [Not Applicable /The provisions annexed to this Pricing Supplement apply]
- Other terms or special conditions: [Not Applicable /give details]

#### DISTRIBUTION

- a. If syndicated, names of Managers: [Not Applicable /give names]

- b. Stabilising Manager (if any): [Not Applicable /give name]
- c. Commissions and Concessions: [ ]
- If non-syndicated, name of Dealer: [Not Applicable /give name]
- Additional selling restrictions: [Not Applicable /give details]
- a. ISIN: [ ]
- b. CUSIP: [ ]
- c. CINS: [ ]
- d. Other: [ ]

#### OPERATIONAL INFORMATION

- Common Code: [ ]
- Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and DTC and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- Delivery: Delivery [against/free of] payment
- Additional Agent(s) (if any): [ ]

#### [FORM OF SUBORDINATION NUCLEUS] Subordination Nucleus

##### A. Form, Subscription in Cash, Principal Amount and Maturity Date

**1.1** *Form:* In accordance with art. 9, I, of Resolution 3,444, the Subordinated Notes are issued in form of Registered Notes.

**1.2** *Subscription in cash:* In accordance with art. 9, II, of Resolution 3,444, the Subordinated Notes may be issued in one or more Series or Tranches, consideration for which shall be paid to the Issuer in cash at the date of issue thereof.

**1.3** *Principal Amount and Maturity Date:* In accordance with art. 9, III, of Resolution 3,444, the Subordinated Notes will be in an aggregate nominal amount of [insert total amount in specified currency]. The nominal amount of the Subordinated Notes will be payable [in full at par in a single payment]/[in [insert number of instalments] instalments starting on [insert first date of amortisation] and ending] on the Maturity Date, unless the payment is deferred as described in Section 3 of this Subordination Nucleus, in accordance with art. 9, V, of Resolution 3,444.

##### 2 Status; Subordination Provisions

**2.1** *Status:* The Subordinated Notes constitute unsecured and subordinated obligations of the Issuer.

**2.2** *Subordination:* In accordance with art. 9, IV, of Resolution 3,444, the Subordinated Notes are subordinated in right of payment to all existing and future Senior Liabilities of the Issuer in accordance with this Subordination Nucleus.

Subject to applicable law, (i) the rights and claims of Noteholders are and will be subordinated and accordingly subject in right of payment to prior payment in full of all principal, premium, if any, interest and any other amounts due or to become due on all Senior Liabilities upon the Issuer's bankruptcy, liquidation, moratorium of payments, insolvency or similar proceedings and (ii)(A) Subordinated Notes shall rank *pari passu* with respect to each other without any preference among themselves, (B) the rights and claims of Noteholders under the Subordinated Notes

shall rank *pari passu* with the rights and claims of holders of the Parity Liabilities and (C) to the extent permitted by applicable law, the Subordinated Notes shall rank senior to the Issuer's Second Priority Liabilities.

### 3 Deferral of Interest and Principal

**3.1** In accordance with art. 9, V, of Resolution 3,444, any payment (of principal, interest or any other amount) on the Subordinated Notes on any Interest Payment Date, [the First Call Date, any Optional Redemption Date (in case of a Subordinated Note with call option),] the Maturity Date or any other date, as applicable, shall not be due at that time and the Issuer will defer that payment of interest or principal or any other amount relating thereto in full if:

- (I) the Issuer determines that it is, or if such payment would result in it being, in non-compliance with then applicable capital adequacy requirements or operational limits set out in Resolution 3,444 and/or Resolution 2,099 or its financial ratios fall below the minimum levels required by regulations generally applicable to Brazilian banks either existing at the date of this Subordination Nucleus or subsequently promulgated or enacted by the Brazilian banking or monetary authorities or any other applicable Brazilian Governmental Authority and applying to the Issuer (the "**Risk-Based Capital Requirements**"); or
- (II) the Central Bank or any applicable Brazilian Governmental Authority determines that such payments shall not be made.

**3.2** Upon the occurrence of sub-clause (i) above, the Issuer will defer payments of interest or principal or any other amount relating thereto in full until the date no later than [insert days in accordance with pricing supplement] days after the date it is no longer in violation of the Risk-Based Capital Requirements and the payment of that interest or principal amount or other amount, or any portion thereof, would no longer cause the Issuer to violate the Risk-Based Capital Requirements.

**3.3** The deferral of any payment in accordance with this Subordination Nucleus will not constitute an Event of Default under the Subordinated Notes.

**3.4** Deferred interest amounts will be determined on each Interest Payment Date only for the purpose of calculating the interest accruing thereafter on amounts in arrears. Such amounts in arrears will bear interest at the Subordinated Note interest rate plus [insert deferral interest rate in accordance with pricing supplement]% per annum. The Issuer will use reasonable efforts to give not more than [insert days in accordance with pricing supplement] and not less than [insert days in accordance with pricing supplement] Relevant Business Days' notice to the Noteholders of any interest or principal payment that will be deferred and of any date on which any amount in arrears or any additional interest on such amount will be payable. If amounts in arrears are at any time only partially payable:

- (i) all amounts in arrears will be payable before additional interest on those amounts;
- (ii) all amounts in arrears will be payable in the order of the Interest Periods for which they accrued, and the payment of additional interest on those amounts will follow the same order; and
- (iii) all amounts in arrears or additional interest on those amounts, as the case may be, for any Interest Period will be paid *pro rata*.

### 4 Redemption, Purchase and Guaranty or Insurance

**4.1** *Purchases:* Subject to the prior approval of the Central Bank (in accordance with art. 9, VI and §3, of Resolution 3,444) or any other applicable Brazilian Governmental Authority, if then required, and to the conditions set forth in Resolution 3,444, the Issuer or any of its Affiliates may at any time purchase any Subordinated Notes in the open market or otherwise in any manner and at any price. The Subordinated Notes so purchased, while held by or on behalf of the Issuer or any of its Affiliates, shall not entitle the holder to vote at any

meetings of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders.

**4.2** *No Redemption at the Option of the Noteholders:* In accordance with art. 9, VII, of Resolution 3,444, the Subordinated Notes may not be redeemed at the option of the Noteholders.

**4.3** *No Guarantee or Insurance:* In accordance with art. 9, VIII and IX, of Resolution 3,444, the Subordinated Notes are unsecured and subordinated obligations of the Issuer and do not benefit from any guarantee or insurance issued pursuant to any insurance policy or similar structure that affects the subordination of the Subordinated Notes and/or requires or allows payments or transfers of funds to the Noteholders, directly or indirectly, by the Issuer or any Affiliate.

**4.4** *Optional Redemption for Taxation Reasons:* Subject to the approval of the Central Bank or any other applicable Brazilian Governmental Authority for such redemption (if such approval is then required), the Subordinated Notes may be redeemed at the option of the Issuer in whole, but not in part, [at any time]<sup>1</sup>/[on any Specified Interest Payment Date]<sup>2</sup> on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Section 9 of this Subordination Nucleus (which notice shall be irrevocable), at their [Early Redemption Amount (together with interest accrued to the date fixed for redemption)]/[Amortised Face Amount (as determined in accordance with Section 4(d)(i) of this Subordination Nucleus)]<sup>3</sup>, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Section 10 of this Subordination Nucleus in excess of the additional amounts which would be payable in respect of deductions or withholdings made at the rate of the Original Withholding Level as a result of any change in, or amendment to, the laws or regulations of Brazil, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date in respect of the relevant Series, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of such Subordinated Notes then due. Prior to the publication of any notice of redemption pursuant to Section 4(d) of this Subordination Nucleus, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders.

- (I) **[Optional Redemption of Zero Coupon Subordinated Notes:** if the amount payable in respect of any Subordinated Note upon redemption of such Subordinated Note pursuant to Sections 4(d), and] (e) [and(f)] of this Subordination Nucleus, if applicable, or upon it becoming due and payable as a result of an Event of Default, is not paid when due, the amount due and payable in respect of such Subordinated Note shall be the Amortised Face Amount, except that Section 4 of this Subordination Nucleus shall have effect as though the reference therein to the date on which the Subordinated Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this Section 4(d)(i) of this Subordination Nucleus will continue to be made (both before and after judgment) until the Relevant Date unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the nominal amount of such Subordinated Note together with any interest which may accrue on such Subordinated Note in accordance with Section 4(d)(ii).]<sup>4</sup>
- (II) **[Zero Coupon:** This Section 4(d)(ii) applies to a Subordinated Note in respect of which the Zero Coupon Note Provisions are specified on such Note as being applicable (a "**Zero Coupon Note**"). Where a Subordinated Note becomes repayable prior to its Maturity Date and is not paid when

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<sup>1</sup> In the case of Fixed Rate or Zero Coupon Subordinated Notes.

<sup>2</sup> In the case of Floating Rate Subordinated Notes.

<sup>3</sup> In the case of Zero Coupon Subordinated Notes.

<sup>4</sup> Delete as appropriate.

due, the amount due and payable in respect of such Subordinated Note shall be the Amortised Face Amount of such Note as determined in accordance with Section 4(d)(i) of this Subordination Nucleus. Where a Subordinated Note is to be redeemed on its Maturity Date, any overdue principal of such Subordinated Note shall bear interest at a rate per annum (expressed as a percentage) equal to the Amortisation Yield specified on such Subordinated Note. Such interest shall continue to accrue (on the same basis as Fixed Rate Notes (both before and after judgment) to the Relevant Date.)<sup>5</sup>

**4.5** *Optional Redemption due to a Regulatory Event:* Subject to the approval of the Central Bank or any other applicable Brazilian Governmental Authority for such redemption (if such approval is then required), the Subordinated Notes may be redeemed at the option of the Issuer, in whole, but not in part, [at any time]<sup>6</sup>/[on any Specified Interest Payment Date]<sup>7</sup>, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Section 9 of this Subordination Nucleus (which notice shall be irrevocable), at their [Early Redemption Amount (together with interest accrued to the date fixed for redemption)]/[Amortised Face Amount (as determined in accordance with Section 4(d)(i) of this Subordination Nucleus)]<sup>8</sup>, if the Issuer certifies to the Trustee immediately prior to the giving of such notice that a Regulatory Event has occurred, provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Regulatory Event is effective. Prior to the publication of any notice of redemption pursuant to Section 4(e) of this Subordination Nucleus, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such a redemption pursuant to Section 4(e) of this Subordination Nucleus, and setting forth in reasonable detail a statement of the facts giving rise to such right of redemption. Concurrently, the Issuer will deliver to the Trustee a written Opinion of Counsel stating, among other things, that a Regulatory Event has occurred and that all governmental approvals necessary for the Issuer to effect such redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

**4.6** *[Call Option of the Issuer On or After the First Call Date:* Subject to the approval of the Central Bank or any other applicable Brazilian Governmental Authority (if such approval is then required), in accordance with art. 9, §3, of Resolution 3,444, the Subordinated Notes may be redeemed only at the option of the Issuer in whole or in part, on the First Call Date or [any other date]/[Specified Interest Payment Date]<sup>9</sup> thereafter as specified on such Subordinated Note, on giving not less than 30 nor more than 45 days' notice (or such other notice period as specified on such Subordinated Note) to the Noteholders in accordance with Section 9 of this Subordination Nucleus (which notice shall be irrevocable), at the amount specified on such Subordinated Note as the Optional Redemption Amount (together with interest accrued to (but excluding) the date fixed for redemption). All Subordinated Notes in respect of which any such notice is given shall be redeemed on the Optional Redemption Date(s) specified in such notice in accordance with Section 4(f) of this Subordination Nucleus. If only some of the Subordinated Notes of a Series are to be redeemed, the Subordinated Notes to be redeemed shall be determined by the drawing of lots. In the case of a partial redemption by way of lot, the notice to Noteholders shall also contain the certificate numbers and nominal amount of the Subordinated Notes to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws, clearing system and Exchange requirements.]<sup>10</sup>

**4.7** *Cancellation:* All Subordinated Notes redeemed will be cancelled forthwith. Any Subordinated Notes purchased in accordance with Section 4 of this Subordination Nucleus, may at the option of the Issuer, be cancelled or may be resold. Subordinated Notes which are cancelled following any redemption or purchase made in accordance with Section 4 of this Subordination Nucleus may at the option of the Issuer be re-issued. Any resale or re-issue pursuant to Section 4(f)/(g) of this Subordination Nucleus shall only be made in compliance with all relevant laws, regulations and directives, including, but not limited to, Resolution 3,444.

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<sup>5</sup> Delete as appropriate.

<sup>6</sup> In the case of Fixed Rate or Zero Coupon Subordinated Notes.

<sup>7</sup> In the case of a Floating Rate Subordinated Note.

<sup>8</sup> In the case of Zero Coupon Subordinated Notes.

<sup>9</sup> In the case of a Floating Rate Subordinated Note.

<sup>10</sup> To be included if Call Option is elected in pricing supplement.



## 5 Governing Law and Jurisdiction

**5.1** *Governing Law:* The Trust Deed and the Subordinated Notes are governed by, and shall be construed in accordance with, English law, except that the subordination provisions set forth in paragraph 2 of this Subordination Nucleus, will be governed by, and construed in accordance with, the laws of Brazil.

**5.2** *Jurisdiction:* The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Subordinated Notes or the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with the Subordinated Notes or the Trust Deed (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

**5.3** *Agent for Service of Process:* The Issuer has in the Trust Deed appointed an agent in England to receive service of process in any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## 6 Conflict of Provisions and Amendments

**6.1** *Conflicts:* In the event of conflict between the provisions of this Subordination Nucleus and any other provision set forth in the Trust Deed or any other Transaction Document, the provision of this Subordination Nucleus shall prevail, as per art. 7, II, of Resolution 3,444 and any such conflicting provision shall be disregarded.

**6.2** *Amendments:* In accordance with art. 7, III, of Resolution 3,444, the execution of any Trust Deed or supplemental Trust Deed (or any other document) to amend, supplement or revoke this Subordination Nucleus, is subject to the prior consent of the Central Bank or any other applicable Brazilian Governmental Authority, if so required.

## 7 Summary of the Subordinated Notes

For the purposes of art. 7, IV, of Resolution 3,444, the terms and conditions of the Subordinated Notes may be summarised as follows:

[There is hereby created a series of Subordinated Notes, designated the “[insert amount in specified currency] [insert interest]% Subordinated Notes due [insert year]” issuable in one or more tranches in the aggregate nominal amount of [insert amount in specified currency], which are to be issued pursuant to the Trust Deed. The Subordinated Notes are unsecured and subordinated obligations of the Issuer. The nominal amount of the Subordinated Notes will be payable [in full at par in a single payment]/[in [insert number of instalments] instalments starting on [insert first date of amortisation] and ending] on [insert date at least five years from issue date] on [insert maturity date] and interest will be payable [quarterly/semi-annually/annually] in arrears on [insert date] of each year, commencing on [insert date]]; provided that the Issuer does not defer payments of principal, interest or other amounts in accordance with Section 3 of this Subordination Nucleus. Interest payable on each interest payment date will be calculated on the basis of a [360-day year] of [twelve 30-day] months.]<sup>11</sup>

## 8 Conflict Determination Provisions in Other Agreements

For the purposes of art. 7, §1, of Resolution 3,444, the following is a copy of the relevant sections of the Agency Agreement, Trust Deed, Dealer Agreement and Pricing Supplement relating to subordination:

“**Subordinated Notes** With respect to any Subordinated Notes, in the event of a conflict between any provision or definition of this Agency Agreement, and any provision or definition set forth in the Subordination Nucleus of the relevant Pricing Supplement or in Resolution 3,444 (as defined in the Subordination Nucleus), the provision or

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<sup>11</sup> To be amended and completed in accordance with provisions of pricing supplement.

definition set forth in the Subordination Nucleus or in Resolution 3,444, shall prevail, as applicable and any such conflicting provision or definition in the Agency Agreement shall be disregarded.”

“**Subordinated Notes** With respect to any Subordinated Notes, in the event of a conflict between any provision or definition of this Trust Deed, and any provision or definition set forth in the Subordination Nucleus of the relevant Pricing Supplement or in Resolution 3,444 (as defined in the Subordination Nucleus), the provision or definition set forth in the Subordination Nucleus or in Resolution 3,444, shall prevail, as applicable and any such conflicting provision or definition in the Trust Deed shall be disregarded.”

“**Subordinated Notes** With respect to any Subordinated Notes, in the event of a conflict between any provision or definition of this Dealer Agreement, and any provision or definition set forth in the Subordination Nucleus of the relevant Pricing Supplement or in Resolution 3,444 (as defined in the Subordination Nucleus), the provision or definition set forth in the Subordination Nucleus or in Resolution 3,444, shall prevail, as applicable and any such conflicting provision or definition in the Dealer Agreement shall be disregarded.”

#### “SUBORDINATED NOTES

In the event of a conflict between any provision or definition of this Pricing Supplement, and any provision or definition set forth in the Subordination Nucleus or in Resolution 3,444 (as defined in the Subordination Nucleus), the provision or definition set forth in the Subordination Nucleus or in Resolution 3,444, shall prevail, as applicable and any such conflicting provision or definition in this Pricing Supplement shall be disregarded.”

#### 9 Notices

Notices to holders of Registered Notes will be mailed to them at their respective addresses in the Register and shall be published (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require) on the Luxembourg Stock Exchange’s website (at [www.bourse.lu](http://www.bourse.lu)). Any such notice shall be deemed to have been given on the later of the date of such publication and the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

#### 10 Taxation

All payments by or on behalf of the Issuer in respect of the Notes will be made free and clear of, and without withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges (together, the “**Taxes**”) of whatever nature imposed, levied, collected, withheld or assessed by or within Brazil or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note :—

**10.1** to a holder (or to a third party on behalf of a holder) where such holder is liable to such Taxes in respect of such Registered Note by reason of it having some connection with Brazil, other than the mere holding of such Registered Note or the receipt of the relevant payment in respect thereof; or

**10.2** if the Definitive Registered Note in respect of such Registered Note is required to be surrendered and is surrendered more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days; or

**10.3** 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 European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

As used in these Subordination Nucleus, “**Relevant Date**” in respect of any Note means the date on which payment in respect thereof first becomes due or (if the full amount of the money payable has not been received by the Trustee

or the Principal Paying Agent on or prior to such due date) the date on which notice is duly given to the Noteholders in accordance with Section 9 of this Subordination Nucleus that such moneys have been so received and are available for payment. References in these Subordination Nucleus to “principal” shall be deemed to include [“Amortised Face Amount,”]<sup>12</sup> “Final Redemption Amount,” [“Optional Redemption Amount”]<sup>13</sup> and “Early Redemption Amount” and any premium payable in respect of the Notes and any reference to “principal” and/or “interest” shall be deemed to include any additional amounts which may be payable under this Section 10 or any undertaking given in addition to or in substitution for it under the Trust Deed.

## 11 Definitions<sup>14</sup>

For the purposes of this Subordination Nucleus:

“Affiliate” (i) with respect to the Issuer, means any Person that belongs to the same financial or consolidated economic financial conglomerate; and (ii) with respect to any Person, means any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person; it being understood that for purposes of this definition, the term “control” (including the terms “controlling,” “controlled by” and “under common control with”) of a Person shall mean the possession, direct or indirect, of the power to vote 10% or more of the equity or similar voting interests of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of such interests, by contract or otherwise;

“Agency Agreement” means the agreement, as amended from time to time, dated the date of the Trust Deed between the Issuer, the Trustee and the Agents and includes any other agreements approved in writing by the Trustee appointing Successor Agents or amending or supplementing such agreements;

“Agents” means the Principal Paying Agent, the other Paying Agents, the Registrar, the Calculation Agent, the Exchange Agent and the Transfer Agents or any of them;

[“Amortised Face amount” means the sum of the (i) the “Reference Price” specified on such Subordinated Note and (ii) the aggregate amortisation of the difference between the “Reference Price” and the nominal amount of such Subordinated Note from the Issue Date to the date on which the Subordinated Note becomes due and payable calculated at a rate per annum (expressed as a percentage) equal to the Amortisation Yield specified in such Subordinated Note;]

“Brazil” means the Federative Republic of Brazil;

“Business Day Convention” means either<sup>15</sup>:

[(A) the “Floating Rate Business Day Convention,” in which case interest on a Subordinated Note shall be payable on each Specified Interest Payment Date which numerically corresponds to its Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date in the calendar month which is the Interest Period specified on such Subordinated Note after the calendar month in which such Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date occurred, provided that:—

- (a) if there is no such numerically corresponding day in the calendar month in which a Specified Interest Payment Date should occur, then the relevant Specified Interest Payment Date will be the last day which is a Relevant Business Day in that calendar month;]
- (b) if a Specified Interest Payment Date would otherwise fall on a day which is not a Relevant Business Day, then the relevant Specified Interest Payment Date will be the first following day which is a Relevant

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<sup>12</sup> In the case of a Floating Rate Subordinated Note.

<sup>13</sup> To be included if Call Option is elected in pricing supplement.

<sup>14</sup> Delete non-applicable definitions as appropriate.

<sup>15</sup> Please elect and amend in accordance with Pricing Supplement.

Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Relevant Business Day; and

- (c) if such Interest Commencement Date or the preceding Specified Interest Payment Date occurred on the last day in a calendar month which was a Relevant Business Day, then all subsequent Specified Interest Payment Dates in respect of such Subordinated Note will be the last day which is a Relevant Business Day in the calendar month which is the Interest Period specified on such Subordinated Note after the calendar month in which such Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date occurred; or]

[(B) the “Modified Following Business Day Convention,” in which case interest on a Subordinated Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Subordinated Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first following day which is a Relevant Business Day unless that day falls in the next calendar month, in which case the relevant Interest Payment Date or Specified Interest Payment Date will be the first preceding day which is a Relevant Business Day; or]

[(C) the “Following Business Day Convention,” in which case interest on a Subordinated Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Subordinated Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first following day which is a Relevant Business Day; or]

[(D) the “Preceding Business Day Convention,” in which case interest on a Subordinated Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Subordinated Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first preceding day which is a Relevant Business Day; or]

[(E) such other Business Day Convention as may be specified on the relevant Subordinated Note.]

“Calculation Agent” means Deutsche Bank AG at its Specified Office or any Successor Calculation Agent;

“Cayman Islands” means the Cayman Islands;

“Central Bank” means *Banco Central do Brasil*;

“Common Shares” means the Issuer’s common shares (*ações ordinárias*);

“Conditions” means, in respect of any Subordinated Note of any Series, the terms and conditions set out in Schedule 1 of the Trust Deed, endorsed on and/or applicable to the Subordinated Note(s) constituting such Series as from time to time modified in accordance with the Trust Deed and, with respect to any Subordinated Notes represented by a DTC Global Note, as modified by the provisions of the DTC Global Note;

“Dealer Agreement” means the dealer agreement dated April 23, 2004, as amended or supplemented from time to time, between the Issuer and Standard Bank Plc (formerly Standard Bank London Limited) and includes any agreement by which any additional dealers accede to such dealer agreement;

“Definitive Registered Note” means a note in registered form in or substantially in the form set out in Schedules 1 or 4 of the Trust Deed issued in the name of the holder of one or more Registered Notes and includes any replacement Definitive Registered Notes issued pursuant to the Conditions applicable to a Registered Series and any DTC Global Note;

“Director” means the Person or Persons authorised to act on behalf of such entity pursuant to a valid power of attorney or any other Person duly authorised in accordance with the organizational documents of the Person;

“DTC” means The Depository Trust Company;

“DTC Global Note” means any DTC Restricted Global Note or DTC Unrestricted Global Note issued in respect of the same Tranche of a Series of Subordinated Notes;

“DTC Restricted Global Note” means a definitive global Registered Note in or substantially in the form set out in Schedule 4 of the Trust Deed and bearing the Rule 144A Legend and the legends required by DTC;

“DTC Unrestricted Global Note” means a definitive global Registered Note in or substantially in the form set out in Schedule 4 of the Trust Deed bearing the legends required by DTC but not the Rule 144A Legend;

“Early Redemption Amount” means the nominal amount of the Subordinated Note [or such other amount specified on such Subordinated Note as “Early Redemption Amount”]<sup>16</sup> payable in respect of any Subordinated Note, upon redemption of such Subordinated Note pursuant to Sections 4(d) and (e) of this Subordination Nucleus;

“Event of Default” means:

If any of the following events occurs the Trustee at its discretion may in respect of the Subordinated Notes of any Series, and if so requested by holders of at least 20% in nominal amount of the Subordinated Notes of such Series then outstanding or if so directed by an Extraordinary Resolution of Noteholders of such Series shall, give notice to the Issuer that the Subordinated Notes of such Series are, and they shall immediately become, due and payable at the Early Redemption Amount specified on such Subordinated Notes or, if none is so specified, at the nominal amount specified on such Subordinated Notes together with accrued interest to the date of redemption or, in relation to Zero Coupon Notes, the Amortised Face Amount of such Subordinated Notes:—

**11.1** *Non-Payment:* the Issuer fails to pay any principal of or interest on any of the Subordinated Notes when due, other than due to a deferral of principal or interest, as set forth in this Subordination Nucleus and in respect of interest, such non-payment continues for 15 days; or

**11.2** *Insolvency:* the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as they become due, stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Trustee) a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or

**11.3** *Winding Up:* an order is made or an effective resolution passed for the winding up or dissolution or administration of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or (in the opinion of the Trustee) a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Subsidiary, whereby the undertaking and the assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries provided that in the case of paragraphs (b) and (c) with respect to Subsidiaries only, the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

[“Exchange” means the Luxembourg Stock Exchange;]

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<sup>16</sup> Amend as applicable.

“Exchange Agent” means Deutsche Bank AG at its Specified Office or any Successor Exchange Agent;

“Extraordinary Resolution” means a resolution passed at a meeting of Noteholders duly convened and held by a majority of at least 75% of the votes cast. A written resolution of holders of not less than 90% in nominal amount of the Subordinated Notes of the relevant Series for the time being outstanding shall take effect as an Extraordinary Resolution for all purposes. Any Extraordinary Resolution duly passed shall be binding on all holders of Subordinated Notes of the relevant Series (whether or not they were present or represented at the meeting at which such resolution was passed);

“Final Redemption Amount” means the nominal amount [or such other amount] as is specified on a Subordinated Note [on the applicable Maturity Date specified on such Subordinated Note;]<sup>17</sup>

[“First Call Date” means [insert date at least (5) five years from Issue Date];]

[“Fixed Rate” means the interest basis of a Subordinated Note specified on it as “Fixed Rate;”]

“Governmental Authority” means, as applicable, the government of Brazil or any political subdivision thereof, whether federal, state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other person exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government over the Issuer;

“Interest Commencement Date” means, in the case of the first issue of a Subordinated Note of a Series, the Issue Date [or such other date as may be specified as the Interest Commencement Date on such Subordinated Note;]<sup>18</sup>

“Interest Payment Date” means [insert date] and [insert date] in each year adjusted in accordance with the Business Day Convention, unless the payment is deferred as described in Section 3 of this Subordination Nucleus;

“Interest Period” means the period beginning on (and including) the Interest Commencement Date to (but excluding) the first [Specified]<sup>19</sup> Interest Payment Date and each successive period beginning on (and including) a [Specified]<sup>20</sup> Interest Payment Date to (but excluding) the next succeeding [Specified]<sup>21</sup> Interest Payment Date;

“Issue Date” means [insert date];

“Issue Price” means [ ] per cent. of the aggregate nominal amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable);]<sup>22</sup>

“Issuer” means Banco Fibra S.A., acting through [its principal office in Brazil] / [its Cayman Islands branch];

“Maturity Date” means [insert date at least five (5) years from issue date], unless the payment is deferred as described in Section 3 of this Subordination Nucleus;

“Noteholder” and (in relation to a Note) “holder” means a person in whose name a Registered Note is registered;

“Notes” means Registered Notes comprising the medium-term Notes constituted by the Trust Deed and issued by the Issuer as contemplated by the Dealer Agreement and for the time being outstanding or, as the context may require, a specific number of them;

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<sup>17</sup> Amend as applicable.

<sup>18</sup> Amend as applicable.

<sup>19</sup> In the case of a Floating Rate Subordinated Note.

<sup>20</sup> In the case of a Floating Rate Subordinated Note.

<sup>21</sup> In the case of a Floating Rate Subordinated Note.

<sup>22</sup> Amend as applicable.

["Opinion of Counsel" means a written opinion of counsel in compliance with the requirements of Section 4(e) of this Subordination Nucleus from any Person which may include, without limitation, counsel for the Issuer, whether or not such counsel is an employee of the Issuer, in all cases in form and substance reasonably acceptable to the Trustee;]

["Optional Redemption Date" means the date specified in accordance with [Section 4(f) of this Subordination Nucleus;]

["Optional Redemption Amount" means amount specified on a Subordinated Note as the optional redemption amount;]

"Original Withholding Level" means [zero per cent.] / [Brazilian withholding tax] (in accordance with Pricing Supplement);

"Parity Liabilities" means, with respect to the Issuer, any securities or liabilities that rank or are expected to rank *pari passu* with the Subordinated Notes or any other instruments that qualify as Tier 1 Capital or Tier 2 Capital, other than the Second Priority Liabilities;

"Paying Agents" means Deutsche Bank AG, Deutsche Bank Trust Company Americas and Deutsche Bank Luxembourg S.A. as paying agents and the Principal Paying Agent and any other or Successor Paying Agents appointed by the Issuer in accordance with the Agency Agreement;

"Person" means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof;

"Pricing Supplement" means the document that constitutes the pricing supplement and contains final information relating to the issue of Subordinated Notes described therein;

"Principal Paying Agent" means Deutsche Trust Bank Ltd at its Specified Office or any Successor Principal Paying Agent;

"Proceedings" has the meaning given to it in Section 5(b) of this Subordination Nucleus;

"Programme" means the Medium-Term Note Programme established by and contemplated in the Dealer Agreement;

"Register" means the register maintained by the Registrar in New York City showing the amount of Registered Notes and certificate number(s) of the Definitive Registered Notes and the date of issue and all subsequent transfers and changes of ownership in respect thereof and the names and addresses of the holders of the Registered Notes;

"Registered Note" means a Subordinated Note in registered form in or substantially in one of the forms set out in Schedule 1 or 4 of the Trust Deed and includes any replacement Registered Note issued pursuant to the Conditions and any DTC Global Note;

"Registered Series" means a Series of Registered Notes;

"Registrar" means Deutsche Bank Trust Company Americas or any Successor Registrar, in each case at its Specified Office;

"Regulatory Event" means, subsequent to the time that the Subordinated Notes initially qualify as Tier 2 Capital, the Central Bank or any other applicable Brazilian Governmental Authority provides written notice that the Subordinated Notes may not be included in the consolidated Tier 2 Capital of the Issuer;

“Relevant Business Day” means<sup>23</sup>:—

[(A) in the case of a currency other than euro, a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the Relevant Financial Centre; or]

[(B) in the case of euro, a TARGET Business Day; and]

[(C) in the case of any currency, a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the business centre(s) specified on the relevant Subordinated Note.]

“Relevant Date” has the meaning given to it in Section 10 of this Subordination Nucleus.

[“Relevant Financial Centre” means the principal financial centre for the relevant currency (which in the case of euro shall be Europe);]

“Resolution 2,099” means Resolution No. 2,099 of August 17, 1994 issued by the *Conselho Monetário Nacional* (the National Monetary Council), as amended, modified, supplemented or superseded from time to time;

“Resolution 3,444” means Resolution No. 3,444 of February 28, 2007 issued by the *Conselho Monetário Nacional* (the National Monetary Council), as amended, modified, supplemented or superseded from time to time;

“Risk-Based Capital Requirements” has the meaning given to it in Section 3.1(i) of this Subordination Nucleus;

“Rule 144A Legend” means the transfer restriction legend relating to Rule 144A under the Securities Act set out on any Definitive Registered Notes or DTC Restricted Global Note;

“Second Priority Liabilities” means the Common Shares, or any other securities, liabilities or instruments of the Issuer that rank pari passu with the Common Shares or junior to the Subordinated Notes and junior to the Parity Liabilities, in respect of return of assets upon liquidation or in respect of interest or payment of dividends or any other payments thereon;

“Securities Act” means the U.S. Securities Act of 1933, as amended and in effect from time to time;

“Senior Liabilities” means all claims of the Issuer’s creditors except for the Parity Liabilities and the Second Priority Liabilities;

“Series” means each original issue of Subordinated Notes together with any further issues expressed to form a single issue with the original issue and the terms of which are (save for the Issue Date, Interest Commencement Date and/or the Issue Price) otherwise identical (including whether or not the Subordinated Notes are listed) and which are consolidated and form a single series and shall be deemed to include the Definitive Registered Notes of a Registered Series and the expressions “Notes of the relevant Series” and “holders of Notes of the relevant Series” and related expressions shall be construed accordingly;

[“Specified Interest Payment Date” means each date on which falls the Interest Period specified on the relevant Subordinated Note after the preceding Specified Interest Payment Date or, in the case of the first Specified Interest Payment Date, after the Interest Commencement Date or as is otherwise specified as such on the relevant Subordinated Note, in each case as adjusted by the Business Day Convention specified on such Subordinated Note, unless the payment is deferred as described in “Deferral of Interest and Principal;”<sup>24</sup>

“Specified Office” means, in relation to any Agent, the office identified with its name at the end of the Conditions or any other office approved by the Trustee and notified to the Noteholders;

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<sup>23</sup> Please elect and amend in accordance with Pricing Supplement.

<sup>24</sup> In the case of a Floating Rate Subordinated Note.



“Subordinated Notes” means the Notes issued by the Issuer under the Programme and in accordance with this Subordination Nucleus and Resolution 3,444;

“Subordination Nucleus” means this subordination nucleus drafted in accordance with Resolution 3,444;

“Subsidiary” means, at any particular time, any company which is then directly or indirectly controlled or more than 50% of whose issued equity share capital (or equivalent) is then beneficially owned by the Issuer and/or one or more of its Subsidiaries;

“Successor” means, in relation to the Agents or the Registrar, such other or further person as may from time to time be appointed by the Issuer as the relevant Agent or Registrar, with the written approval of, and on terms approved in writing by, the Trustee and notice of whose appointment is given to Noteholders;

[“TARGET Business Day” means a day on which the TARGET System is operating;]

[“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on November 19, 2007 or any successor thereto;]

“Taxes” has the meaning given to it in Section 10 of this Subordination Nucleus;

“Tier 1 Capital” means capital (or similar instruments) qualifying as Tier 1 capital, as set forth in Resolution 3,444;

“Tier 2 Capital” means capital (or similar instruments) qualifying as Tier 2 capital, as set forth in Resolution 3,444;

“Tranche” means all Subordinated Notes of the same Series with the same Issue Date;

“Transaction Document” means, collectively, the Subordinated Notes, the Trust Deed, the Agency Agreement, the Dealer Agreement and the Pricing Supplement;

“Transfer Agents” means the banks referred to as such in the Conditions or any Successor Transfer Agents at their respective Specified Offices;

“Trustee” means Deutsche Trustee Company Limited (which expression, where the context so admits, includes any other trustee for the time being under the Trust Deed);

“Trust Deed” means the trust deed dated April 23, 2004, between the Issuer and the Trustee (as amended, supplemented or altered in accordance with the Trust Deed from time to time) and any other document executed in accordance with the Trust Deed (as from time to time so altered) and expressed to be supplemental to the Trust Deed; [and]

[“Zero Coupon” means the interest basis of a Subordinated Note specified on it as “Zero Coupon”].]

## **[SUBORDINATED NOTES**

In the event of a conflict between any provision or definition of this Pricing Supplement, and any provision or definition set forth in the Subordination Nucleus or in Resolution 3,444 (as defined in the Subordination Nucleus), the provision or definition set forth in the Subordination Nucleus or in Resolution 3,444, shall prevail, as applicable and any such conflicting provision or definition in the Pricing Supplement shall be disregarded.]

## **[LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$1,000,000,000 Medium-Term Note Programme of [ ], 2013.

## **[STABILISING**

In connection with this issue, [*insert name of Stabilising Manager*] (the “Stabilising Manager”) or any person acting for him 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 the Stabilising Manager or any agent of his 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 audited 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*].]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular referred to above, contains all information that is material in the context of the issue of the Notes.

Signed on behalf of the Issuer:

By: \_\_\_\_\_  
Duly authorised signatory

**ISSUER**

**Banco Fibra S.A. [(acting through its Cayman Islands branch)]**  
Avenida Presidente Juscelino Kubitschek, 360  
4th to 9th Floors  
04543-000, São Paulo, SP  
Brazil

**TRUSTEE**

**Deutsche Trustee Company Limited**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**PRINCIPAL PAYING AGENT**

**Deutsche Trust Bank Limited**  
Tokyo Cinko Kyokai Building  
1-3-1, Maronouchi, Chiyoda-ku  
Tokyo 100-0005

**PAYING AGENT, TRANSFER AGENT,  
CALCULATION AGENT AND  
EXCHANGE AGENT**

**Deutsche Bank AG**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**PAYING AGENT  
AND TRANSFER AGENT**

**Deutsche Bank Luxembourg S.A.**  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg

**REGISTRAR, CUSTODIAN, PAYING  
AGENT AND TRANSFER AGENT**

**Deutsche Bank Trust Company Americas**  
60 Wall Street  
New York, New York 10005

## Financial Statements of the Issuer

### Financial Statements for the Years Ended December 31, 2012 and 2011

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(A free translation of the original in Portuguese)

**Banco Fibra S.A.  
and subsidiaries**  
Financial statements at  
December 31, 2012  
and independent auditor's report



(A free translation of the original in Portuguese)

## **Independent auditor's report**

To the Board of Directors and Stockholders  
Banco Fibra S.A.

We have audited the accompanying financial statements of Banco Fibra S.A. ("Bank" or "Banco Fibra"), which comprise the balance sheet as at December 31, 2012 and the statements of income, changes in equity and cash flows for the year and six-month period then ended, as well as the accompanying consolidated financial statements of Banco Fibra S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of income, changes in equity and cash flows for the year and six-month period then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank (BACEN), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



Banco Fibra S.A.

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 financial statements referred to above present fairly, in all material respects, the financial position of Banco Fibra S.A. and of Banco Fibra S.A. and its subsidiaries as at December 31, 2012, and the Bank's financial performance and cash flows for the year and six-month period then ended, as well as the consolidated financial performance and cash flows for the year and six-month period then ended, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Brazilian Central Bank (BACEN).

### **Emphasis of matter**


We call attention to Note 2 to the financial statements, which describes that as a result of the corporate reorganization (Note 3) and in accordance with item I of article 9 of Circular Letter 3,017/00 of BACEN, the financial statements of Banco Fibra S.A. are not being presented comparatively with the balances at December 31, 2011. Our opinion is not qualified in respect of this matter.


### **Other matters**

#### **Supplementary information - statements of value added**

We have also audited the statements of value added of Banco Fibra S.A. and of Banco Fibra S.A. and its subsidiaries for the year ended December 31, 2012, prepared under the responsibility of the Bank's management and which are being voluntarily presented by the Bank. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

São Paulo, March 8, 2013

  
PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

  
Edison Arisa Pereira  
Contador CRC 1SP127241/O-0

# Banco Fibra S.A. and Banco Fibra S.A. and subsidiaries ("Fibra Consolidated")

## Balance sheet at December 31

(all amounts in thousands of Reais)

(A free translation of the original in Portuguese)

	Banco Fibra S.A.	Fibra Consolidated	
	2012	2012	2011
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>	<b>7,277,985</b>	<b>7,274,253</b>	<b>7,873,137</b>
<b>Cash and cash equivalents (Notes 4c and 5)</b>	<b>52,270</b>	<b>52,339</b>	<b>85,353</b>
<b>Short-term interbank investments (Notes 4d and 6)</b>	<b>848,936</b>	<b>848,936</b>	<b>328,922</b>
Open market investments	800,986	800,986	244,544
Interbank deposits	47,950	47,950	65,620
Foreign currency investments	-	-	18,758
<b>Marketable securities and derivative financial instruments (Notes 4e, 4f and 7)</b>	<b>594,505</b>	<b>585,926</b>	<b>1,046,189</b>
Own portfolio	230,576	204,059	801,610
Restricted to repurchase commitments	6,787	6,787	23,882
Derivative financial instruments	41,265	34,863	11,073
Linked to the Brazilian Central Bank	152,579	152,579	90,265
Subject to guarantees	163,298	187,638	119,359
<b>Interbank accounts</b>	<b>57,970</b>	<b>57,970</b>	<b>80,898</b>
Restricted deposits - Brazilian Central Bank	29,029	29,029	62,774
Correspondent banks	26,966	26,966	18,124
Interbank accounts	1,975	1,975	-
<b>Credit operations (Notes 9 and 10)</b>	<b>5,034,243</b>	<b>5,034,243</b>	<b>5,213,732</b>
Public sector	-	-	2,046
Private sector	5,291,282	5,291,282	5,447,373
Allowance for loan losses (Note 10d)	(257,039)	(257,039)	(235,687)
<b>Other receivables</b>	<b>524,632</b>	<b>529,197</b>	<b>1,004,731</b>
Foreign exchange portfolio (Note 17)	449,265	449,265	937,467
Income receivable	786	1,038	1,510
Negotiation and intermediation of securities	4,522	5,245	3,632
<b>Sundry (Note 18a)</b>	<b>101,120</b>	<b>108,693</b>	<b>139,972</b>
Tax credits (Note 19b)	-	-	69
Real estate-backed securities	-	510	3,427
Sundry	101,120	108,183	136,476
(-) Allowance for losses on other receivables (Note 10d)	(31,061)	(35,044)	(77,850)
<b>Other assets</b>	<b>165,429</b>	<b>165,642</b>	<b>113,312</b>
Other assets	24,298	25,145	8,845
Prepaid expenses (Note 18b)	143,646	143,859	105,223
(-) Valuation allowance	(2,515)	(3,362)	(756)
<b>LONG-TERM RECEIVABLES</b>	<b>3,303,674</b>	<b>3,050,662</b>	<b>2,867,479</b>
<b>Marketable securities and derivative financial instruments (Notes 4e, 4f and 7)</b>	<b>481,890</b>	<b>114,576</b>	<b>183,714</b>
Own portfolio	360,540	54,996	28,067
Derivative financial instruments	97,010	59,580	38,009
Restricted deposits - Brazilian Central Bank	-	-	80,704
Subject to guarantees	24,340	-	36,934
<b>Credit operations (Notes 9 and 10)</b>	<b>1,872,090</b>	<b>1,872,090</b>	<b>1,903,848</b>
Public sector	1,853	1,853	1,848
Private sector	1,962,722	1,962,722	1,990,565
Allowance for loan losses (Note 10d)	(92,485)	(92,485)	(88,565)
<b>Other receivables</b>	<b>838,682</b>	<b>952,892</b>	<b>693,153</b>
Income receivable	14	14	4
<b>Sundry (Note 18a)</b>	<b>850,089</b>	<b>964,555</b>	<b>693,671</b>
Tax credits (Note 19b)	552,828	601,456	440,591
Real estate-backed receivables	-	1,210	3,865
Sundry	297,261	361,889	249,215
(-) Allowance for losses on other receivables (Note 10d)	(11,421)	(11,677)	(522)
<b>Other assets</b>	<b>111,012</b>	<b>111,104</b>	<b>86,764</b>
Prepaid expenses (Note 18b)	111,012	111,104	86,764
<b>PERMANENT ASSETS</b>	<b>337,042</b>	<b>124,560</b>	<b>275,694</b>
<b>Investments (Note 11a)</b>	<b>217,808</b>	<b>1,590</b>	<b>1,598</b>
Investments in subsidiaries - Brazil (Note 11a)	216,427	-	-
Other investments	1,381	1,590	1,598
<b>Property and equipment in use</b>	<b>12,914</b>	<b>16,319</b>	<b>18,892</b>
Other property and equipment in use	31,841	38,876	37,631
(-) Accumulated depreciation	(18,927)	(22,557)	(18,739)
<b>Deferred charges</b>	<b>1,953</b>	<b>1,953</b>	<b>4,054</b>
Organization and expansion costs	21,406	21,521	21,518
(-) Accumulated amortization	(19,453)	(19,568)	(17,464)
<b>Intangible assets (Note 11b)</b>	<b>104,367</b>	<b>104,698</b>	<b>251,150</b>
Goodwill on investments	244,428	244,428	238,841
(-) Amortization of goodwill on investments	(209,250)	(209,250)	(50,583)
Acquisition and development of software	108,717	109,114	84,927
(-) Amortization of acquisition and development of software	(39,528)	(39,594)	(22,035)
<b>TOTAL ASSETS</b>	<b>10,918,701</b>	<b>10,449,475</b>	<b>11,016,310</b>

The accompanying notes are an integral part of these financial statements.



# Banco Fibra S.A. and Banco Fibra S.A. and subsidiaries ("Fibra Consolidated")

Balance sheet  
at December 31

(all amounts in thousands of Reais)

(continued)

LIABILITIES AND EQUITY	Fibra Consolidated		
	2012	2012	2011
<b>CURRENT LIABILITIES</b>	<b>4,737,944</b>	<b>4,498,274</b>	<b>5,862,453</b>
<b>Deposits (Note 13)</b>	<b>2,738,949</b>	<b>2,610,189</b>	<b>3,189,576</b>
Demand deposits	103,160	102,143	178,275
Interbank deposits	311,442	302,039	528,371
Time deposits	2,324,347	2,206,007	2,482,930
<b>Funds obtained in the open market (Note 14)</b>	<b>21,779</b>	<b>21,779</b>	<b>23,837</b>
Own portfolio	6,779	6,779	23,837
Third-party portfolio	15,000	15,000	-
<b>Funds from acceptances and issue of securities (Note 15)</b>	<b>692,798</b>	<b>692,798</b>	<b>459,004</b>
Funds from Agribusiness Bills	233,452	233,452	429,247
Securities issued abroad	459,346	459,346	29,757
<b>Interbank accounts</b>	<b>137,476</b>	-	-
Interbank onlendings (Note 18c)	137,476	-	-
<b>Interbranch accounts</b>	<b>31,865</b>	<b>31,865</b>	<b>79,349</b>
Third-party funds in transit	31,794	31,794	-
Internal transfers of funds	-	-	79,149
Bank correspondents	71	71	200
<b>Borrowings</b>	<b>545,801</b>	<b>545,801</b>	<b>930,131</b>
Foreign borrowings (Note 16a)	545,801	545,801	930,131
<b>Local onlendings - official institutions (Note 16b)</b>	<b>257,060</b>	<b>257,060</b>	<b>228,211</b>
BNDES/FINAME onlendings	167,682	167,682	127,920
Other institutions	89,378	89,378	100,291
<b>Derivative financial instruments (Note 7c)</b>	<b>18,754</b>	<b>16,074</b>	<b>4,276</b>
Derivative financial instruments	18,754	16,074	4,276
<b>Other liabilities</b>	<b>293,462</b>	<b>322,708</b>	<b>948,069</b>
Collection of taxes and similar	1,467	1,467	4,685
Foreign exchange portfolio (Note 17)	33,541	33,541	324,357
Tax and social security	17,959	33,800	274,499
Negotiation and intermediation of securities	800	1,522	854
Subordinated debt (Note 21)	36,282	36,282	164,702
Sundry (Note 18d)	203,413	216,096	178,972
<b>LONG-TERM LIABILITIES</b>	<b>5,139,127</b>	<b>4,909,565</b>	<b>4,155,771</b>
<b>Deposits (Note 13)</b>	<b>2,518,483</b>	<b>2,477,099</b>	<b>2,563,654</b>
Interbank deposits	119,679	78,295	25,414
Time deposits	2,398,804	2,398,804	2,538,240
<b>Funds from acceptances and issue of securities (Note 15)</b>	<b>1,602,057</b>	<b>1,602,057</b>	<b>858,821</b>
Funds from Agribusiness Bills	1,115,048	1,115,048	-
Securities issued abroad	487,009	487,009	858,821
<b>Interbank accounts</b>	<b>223,444</b>	-	-
Interbank onlendings (Note 18c)	223,444	-	-
<b>Borrowings</b>	<b>74,217</b>	<b>74,217</b>	<b>28,137</b>
Foreign borrowings (Note 16a)	74,217	74,217	28,137
<b>Local onlendings - official institutions (Note 16b)</b>	<b>113,628</b>	<b>113,628</b>	<b>351,453</b>
BNDES/FINAME onlendings	67,266	67,266	225,541
Other institutions	46,362	46,362	125,912
<b>Derivative financial instruments (Note 7c)</b>	<b>31,555</b>	<b>31,555</b>	<b>23,927</b>
Derivative financial instruments	31,555	31,555	23,927
<b>Other liabilities</b>	<b>575,743</b>	<b>611,009</b>	<b>329,779</b>
Tax and social security	218,485	252,253	13,793
Subordinated debt (Note 21)	336,193	336,193	315,986
Sundry (Note 18d)	21,065	22,563	-
<b>Deferred income</b>	<b>4,239</b>	<b>4,239</b>	<b>4,127</b>
Deferred income	4,239	4,239	4,127
<b>Non-controlling interests in subsidiaries</b>	-	<b>6</b>	<b>15</b>
Non-controlling interests in subsidiaries	-	6	15
<b>EQUITY (Note 22)</b>	<b>1,037,391</b>	<b>1,037,391</b>	<b>993,944</b>
<b>Share capital</b>	<b>1,164,888</b>	<b>1,164,888</b>	<b>966,461</b>
Local residents	992,547	992,547	822,546
Foreign residents	172,341	172,341	143,915
<b>Capital increase</b>	<b>150,000</b>	<b>150,000</b>	<b>170,000</b>
Local residents	150,000	150,000	170,000
Capital reserves	4,830	4,830	4,830
Carrying value adjustments	(18,723)	(18,723)	(21,674)
Accumulated deficit	(263,604)	(263,604)	(125,673)
<b>Total liabilities and equity</b>	<b>10,918,701</b>	<b>10,449,475</b>	<b>11,016,310</b>

# Banco Fibra S.A. and Banco Fibra S.A. and subsidiaries ("Fibra Consolidated")

## Statement of changes in equity Year and six-month period ended December 31, 2012

(all amounts in thousands of Reais)

(A free translation of the original in Portuguese)

	Share capital		Capital reserves	Carrying value adjustments	Retained earnings (accumulated deficit)	Total
	Paid-up capital	Capital increase				
<b>AT DECEMBER 31, 2011</b>	<b>966,461</b>	<b>170,000</b>	<b>4,830</b>	<b>(21,674)</b>	<b>(125,676)</b>	<b>993,941</b>
Adjustments per BACEN Circular Letters 3,068/01 and 3,082/02	-	-	-	2,951	-	2,951
Capital increase	-	178,427	-	-	-	178,427
Capital increase in prior periods	170,000	(170,000)	-	-	-	-
Loss for the year	-	-	-	-	(137,928)	(137,928)
<b>AT DECEMBER 31, 2012</b>	<b>1,136,461</b>	<b>178,427</b>	<b>4,830</b>	<b>(18,723)</b>	<b>(263,604)</b>	<b>1,037,391</b>
<b>AT JUNE 30, 2012</b>	<b>966,461</b>	<b>198,427</b>	<b>4,830</b>	<b>(41,548)</b>	<b>(119,453)</b>	<b>1,008,717</b>
Adjustments per BACEN Circular Letters 3,068/01 and 3,082/02	-	-	-	22,825	-	22,825
Capital increase	-	150,000	-	-	-	150,000
Capital increase in prior periods	170,000	(170,000)	-	-	-	-
Loss for the six-month period	-	-	-	-	(144,151)	(144,151)
<b>AT DECEMBER 31, 2012</b>	<b>1,136,461</b>	<b>178,427</b>	<b>4,830</b>	<b>(18,723)</b>	<b>(263,604)</b>	<b>1,037,391</b>

The accompanying notes are an integral part of these financial statements.

# Banco Fibra S.A. and Banco Fibra S.A. and subsidiaries ("Fibra Consolidated")

## Statement of income

Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

(all amounts in thousands of Reais)

(A free translation of the original in Portuguese)

	Banco Fibra S.A.		Fibra Consolidated	
	2nd Half 2012	2012	2012	2011
<b>INCOME FROM FINANCIAL INTERMEDIATION</b>	<b>585.598</b>	<b>1.301.728</b>	<b>1.673.835</b>	<b>1.751.688</b>
Credit operations	381.169	800.137	1.349.276	1.358.930
Marketable securities transactions	177.343	415.166	192.925	218.322
Derivative financial instruments	7.518	146	45.355	40.326
Foreign exchange transactions	19.568	86.279	86.279	134.110
<b>EXPENSES ON FINANCIAL INTERMEDIATION</b>	<b>(496.810)</b>	<b>(1.133.739)</b>	<b>(1.341.176)</b>	<b>(1.512.496)</b>
Funds obtained in the market	(389.173)	(889.103)	(872.441)	(946.112)
Borrowing, assignment and onlending transactions	(21.684)	(123.800)	(99.849)	(227.060)
Leasing operations	-	(109)	(109)	(125)
Allowance for loan losses (Note 10d)	(85.953)	(120.727)	(368.777)	(339.199)
<b>GROSS PROFIT ON FINANCIAL INTERMEDIATION</b>	<b>88.788</b>	<b>167.989</b>	<b>332.659</b>	<b>239.192</b>
<b>OTHER OPERATING INCOME (EXPENSES)</b>	<b>(330.542)</b>	<b>(421.943)</b>	<b>(568.928)</b>	<b>(393.507)</b>
Income from services rendered	20.527	34.245	108.456	121.537
Equity in the results of subsidiaries (Note 11a)	5.393	11.095	-	-
Personnel expenses	(111.323)	(183.948)	(269.871)	(268.818)
Other administrative expenses (Note 18e)	(78.497)	(137.088)	(215.251)	(183.722)
Tax expenses (Note 19a II)	(23.672)	(32.203)	(67.052)	(58.760)
Other operating income (Note 18f)	25.781	68.467	85.822	84.474
Other operating expenses (Note 18g)	(168.751)	(182.511)	(211.032)	(88.218)
<b>OPERATING RESULT</b>	<b>(241.754)</b>	<b>(253.954)</b>	<b>(236.269)</b>	<b>(154.315)</b>
<b>NON-OPERATING RESULT (Note 18h)</b>	<b>(1.991)</b>	<b>(808)</b>	<b>(9.949)</b>	<b>(2.146)</b>
<b>LOSS BEFORE TAXATION AND PROFIT SHARING</b>	<b>(243.745)</b>	<b>(254.762)</b>	<b>(246.218)</b>	<b>(156.461)</b>
<b>INCOME TAX AND SOCIAL CONTRIBUTION (Note 19a I)</b>	<b>99.594</b>	<b>116.834</b>	<b>108.290</b>	<b>72.631</b>
Provision for income tax	58.145	40.493	4.201	(47.694)
Provision for social contribution	28.986	18.411	(3.671)	(26.680)
Deferred tax assets	12.463	57.930	107.760	147.005
<b>LOSS FOR THE YEAR</b>	<b>(144.151)</b>	<b>(137.928)</b>	<b>(137.928)</b>	<b>(83.830)</b>

The accompanying notes are an integral part of these financial statements.

# Banco Fibra S.A. and Banco Fibra S.A. and subsidiaries ("Fibra Consolidated")

## Statement of cash flows Years ended December 31 and six-month periods ended June 30, 2012 and 2011

(all amounts in thousands of Reais)

(A free translation of the original in Portuguese)

	Banco Fibra S.A.		Fibra Consolidated	
	2nd Half	2012	2012	2011
<b>ADJUSTED PROFIT</b>	<b>125.745</b>	<b>125.132</b>	<b>349.378</b>	<b>199.660</b>
Loss for the six-month period/year	(144.151)	(137.928)	(137.928)	(83.830)
Adjustments to loss:	269.896	263.060	487.306	283.490
Allowance for loan losses	85.953	120.727	368.777	339.199
Increase (reduction) for losses and assets not for own use	602	894	1.397	(3.273)
Adjustments to market value of marketable securities and derivative financial instruments	52.894	52.894	52.910	-
Depreciation and amortization	9.327	16.599	27.203	18.568
Equity in the results of associates and subsidiaries	(5.393)	(11.094)	-	-
Amortization of goodwill - investment	138.976	140.970	144.779	24.108
Deferred taxes	(12.463)	(57.930)	(107.760)	(97.046)
Other	-	-	-	1.934
<b>CHANGES IN ASSETS AND LIABILITIES</b>	<b>(762.667)</b>	<b>(706.180)</b>	<b>(558.728)</b>	<b>(506.498)</b>
(Increase) decrease in short-term interbank investments	2.654.629	2.072.730	(587.914)	420.905
(Increase) decrease in marketable securities and derivative financial instruments	153.462	231.495	518.740	(607.833)
(Increase) decrease in interbank and interbranch accounts - net	35.553	118.300	(24.556)	36.868
(Increase) decrease in loan and leasing operations	(2.417.866)	(2.227.082)	(179.504)	(837.531)
(Increase) decrease in other receivables and other assets	(226.418)	(141.514)	288.062	(403.357)
(Decrease) increase in deposits	(807.539)	(819.060)	(665.943)	564.542
(Decrease) increase in funds obtained in the open market	(186.549)	(2.058)	(2.057)	(29.623)
(Decrease) increase in funds from issue of securities	418.071	977.031	977.029	296.897
(Decrease) increase in borrowings and onlendings	(246.706)	(705.055)	(547.226)	(124.372)
Decrease (increase) in other liabilities	(114.706)	(186.059)	(300.174)	260.522
Income tax and social contribution paid	(25.019)	(25.019)	(35.297)	(83.300)
Changes in deferred income	421	111	112	(216)
<b>NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(636.922)</b>	<b>(581.048)</b>	<b>(209.350)</b>	<b>(306.838)</b>
<b>NET CASH GENERATED BY (USED IN) INVESTING ACTIVITIES</b>	<b>467.509</b>	<b>358.354</b>	<b>(20.849)</b>	<b>(14.174)</b>
(Purchase) sale of property and equipment in use	(6.869)	(7.125)	(922)	(4.231)
(Acquisition) sale of investment	666.845	567.144	8	106
(Purchase) sale of assets not for own use	-	(1)	(4)	-
(Purchase) sale of other assets	-	-	-	688
(Purchase) sale of intangible assets	(192.467)	(201.664)	(19.931)	(10.737)
<b>NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES</b>	<b>150.000</b>	<b>178.427</b>	<b>178.427</b>	<b>330.000</b>
Capital increase (decrease)	150.000	178.427	178.427	330.000
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(19.413)</b>	<b>(44.267)</b>	<b>(51.772)</b>	<b>8.988</b>
Cash and cash equivalents at the beginning of the six-month period/year	71.683	168.220	104.111	95.123
Cash and cash equivalents at the end of the six-month period/year	52.270	123.953	52.339	104.111
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(19.413)</b>	<b>(44.267)</b>	<b>(51.772)</b>	<b>8.988</b>

The accompanying notes are an integral part of these financial statements.

# Banco Fibra S.A. and Banco Fibra S.A. and subsidiaries ("Fibra Consolidated")

Statement of value added  
Year ended December 31

(all amounts in thousands of Reais)

(A free translation of the original in Portuguese)

Breakdown of value added	Banco Fibra S.A. 2012	
	R\$ thousand	%
Gross result from financial intermediation	167.989	547,4%
Income from services rendered	34.245	111,6%
Income from bank fees	-	0,0%
Other operating income/expenses	(171.547)	-559,0%
<b>Total</b>	<b>30.687</b>	<b>100,0%</b>
<b>Distribution of value added</b>		
<b>Employee compensation</b>	<b>233.350</b>	<b>760,2%</b>
Salaries	191.549	624,0%
Benefits	28.514	92,9%
Government Severance Indemnity Fund for Err	13.134	42,8%
Other charges	153	0,5%
<b>Payment to government</b>	<b>(64.735)</b>	<b>-210,9%</b>
Tax credits (expenses)	32.203	104,9%
Income tax and social contribution	(116.834)	-380,7%
National Institute of Social Security (INSS)	19.896	64,9%
<b>Loss for the year</b>	<b>(137.928)</b>	<b>-449,5%</b>
<b>Total</b>	<b>30.687</b>	<b>99,8%</b>

Breakdown of value added	Fibra Consolidated 2012		Fibra Consolidated 2011	
	R\$ thousand	%	R\$ thousand	%
Gross result from financial intermediation	332.659	366,7%	239.192	139,8%
Income from services rendered	108.456	119,6%	121.537	71,0%
Other operating income/expenses	(350.410)	-386,3%	(189.612)	-110,8%
<b>Total</b>	<b>90.705</b>	<b>100,0%</b>	<b>171.117</b>	<b>100,0%</b>
<b>Distribution of value added</b>				
<b>Employee compensation</b>	<b>243.088</b>	<b>268,2%</b>	<b>237.852</b>	<b>139,0%</b>
Salaries	198.508	219,0%	162.073	94,7%
Benefits	29.816	32,9%	33.445	19,5%
Government Severance Indemnity Fund for l	14.340	15,8%	11.058	6,5%
Other charges	424	0,5%	31.276	18,3%
<b>Payment to government</b>	<b>(14.455)</b>	<b>-25,9%</b>	<b>17.095</b>	<b>9,9%</b>
Tax credits (expenses)	67.052	73,9%	58.777	34,3%
Income tax and social contribution	(108.290)	-119,4%	(72.650)	-42,5%
National Institute of Social Security (INSS)	26.783	19,6%	30.968	18,1%
<b>Loss for the year</b>	<b>(137.928)</b>	<b>-152,1%</b>	<b>(83.830)</b>	<b>-48,9%</b>
<b>Total</b>	<b>90.705</b>	<b>90,2%</b>	<b>171.117</b>	<b>100,0%</b>

The accompanying notes are an integral part of these financial statements.

# **Banco Fibra S.A. and Banco Fibra S.A. and subsidiaries ("Fibra Consolidated")**

**Statement of value added  
Year ended December 31**

**(all amounts in thousands of Reais)**

**(A free translation of the original in Portuguese)**

## **1. Operations**

Banco Fibra S.A. ("BANCO FIBRA" or the "Bank") is a multiple service bank, operating in the commercial, exchange, investment, credit and finance portfolios, as well as through its subsidiaries in securities brokerage activities, securitization of real estate credits and investment fund management.

Operations are conducted in the context of a group of institutions which act jointly in the financial market, and certain transactions involve the participation or intermediation of associated institutions that are also members of the financial system. The benefits of the services rendered among these institutions and the operating and administrative costs are allocated to the companies, either jointly or individually, as is most practical and reasonable in the circumstances.

The Bank has adopted the policy of protecting its profit and equity from the full effects of the foreign exchange variations on its investment in the branch located in Grand Cayman (full branch). In this regard, it maintains a short position in U.S. dollars in an amount sufficient to offset direct and indirect impacts on the results for the period.

In 2002 the Bank discontinued two business lines of the Retail Segment – the payroll loan line at the beginning of the year and the vehicle financing in December. Additionally, on October 31, 2012 the Extraordinary General Meeting of Stockholders approved the merger of the finance company CREDIFIBRA S.A. - Crédito, Financiamento e Investimento (CREDIFIBRA) into Banco Fibra.

The structure maintained for the Retail Segment, which will operate as a complement to the Wholesale Segment, aims at operating with higher profitability portfolios: Direct Consumer Lending (CDC) and Credit Cards. The remaining portfolios of vehicle financing and payroll loans will continue to be managed by the Bank, which will provide full support to its clients.

The main purposes of these actions were:(i) concentrate Fibra's businesses in the Retail Segment, in which it has strong market expertise; (ii) simplify the Bank's stockholding structure and reduce its administration costs; (iii) conclude the capture of synergies between the Wholesale and Retail platforms, maximizing gains derived from the improvement in the Bank's operating routines; and (iv) reduce the Bank's credit exposure to a segment whose systemic delinquency, affected by families' higher indebtedness and other macroeconomic factors, have presented rates higher than the historical average.

Concurrently with the decision of discontinuing these business lines, the goodwill of the vehicle financing operation derived from past acquisitions was fully written off, as mentioned in Note 11b.

## **Banco Fibra S.A.**

### **Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012**

*(All amounts in thousands of reais unless otherwise stated)*

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The financial statements for the year ended December 31, 2012 were approved by the Board of Directors on March 8, 2013.

## **2. Presentation of the financial statements**

The financial statements, established by Circular Letter 2,990/00 of the Brazilian Central Bank (BACEN), have been prepared in conformity with the standards and instructions of the National Monetary Council (CMN) and BACEN, as specified in the Chart of Accounts for Institutions of the National Financial System (COSIF) and with accounting guidelines from the Corporation Law - Law 6,404/76 and amendments introduced by Laws 11,638/07 and 11,941/09.

As a result of the corporate reorganization (**Note 3**) and in accordance with item I of article 9 of BACEN Circular Letter 3,017/00, the financial statements of BANCO FIBRA S.A. are not being presented comparatively with the balances at December 31, 2011. The assets and liabilities already reflect the effects of the merger, while the other statements reflect the operations related to the merged assets and liabilities at October 31, 2012.

In preparing the financial statements, estimates and assumptions were utilized to determine the amounts of certain assets, liabilities, income and expenses, in accordance with accounting practices adopted in Brazil. These estimates and assumptions were considered in the measurement of the provisions for loss with credit operations and contingencies, in the determination of the market value of financial instruments and in the selection of the useful life of certain assets. The actual results may differ from the estimates and assumptions adopted.

The Brazilian Accounting Pronouncements Committee (CPC) issued pronouncements related to the process of convergence with International Financial Reporting Standards; however, not all of them were ratified by CMN.

The accounting standards which have already been approved by BACEN include the following:

- a) CPC01 - Impairment of assets – ratified by CMN Resolution 3,566/08;
- b) CPC 03 - Statement of cash flows – ratified by CMN Resolution 3,604/08;
- c) CPC 05 - Related-party disclosures – ratified by CMN Resolution 3,750/09;
- d) CPC 10 - Share-based payment – ratified by CMN Resolution 3,989/11;
- e) CPC 23 - Accounting policies, changes in accounting estimates and correction of errors – ratified by CMN Resolution 4,007/11;
- f) CPC 24 - Subsequent event – ratified by CMN Resolution 3,973/11;
- g) CPC 25 - Provisions, contingent liabilities and contingent assets – ratified by CMN Resolution 3,823/09.

BANCO FIBRA's financial statements have been prepared in accordance with the Brazilian Corporation Law and the accounting practices adopted in Brazil, and in conformity with the standards and instructions issued by the Brazilian Central Bank (BACEN). They include operations carried out by its foreign branch (Note 12) and are being presented together with the consolidated financial statements, which comprise the Bank and its subsidiaries (**Note 11**).

**Banco Fibra S.A.**

**Notes to the financial statements**  
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**3. CORPORATE REORGANIZATIONS**

On October 31, 2012, BANCO FIBRA carried out the merger of its subsidiary Credifibra S/A Crédito, Financiamento e Investimento (CREDIFIBRA) into the Bank, approved at the extraordinary general stockholders meeting held on that date and ratified by BACEN on January 30, 2013. The merger was recognized by BANCO FIBRA using the asset and liability balances of CREDIFIBRA at October 31, 2012, as shown below. The purpose of such information is to provide a position of the impacts of this merger on the balance sheet.

**ASSETS**

<b>CURRENT ASSETS AND LONG-TERM RECEIVABLES</b>	
Cash and cash equivalents	11,067
Marketable securities	103,767
Credit operations	2,890,670
Other receivables	83,243
Tax credits (a)	140,965
Other assets	223,850
<b>PERMANENT ASSETS</b>	<b>199,573</b>
<b>TOTAL ASSETS</b>	<b>3,653,135</b>

**LIABILITIES AND EQUITY**

<b>CURRENT AND LONG-TERM LIABILITIES</b>	
Deposits	2,836,058
Other liabilities	135,181
<b>EQUITY</b>	<b>681,896</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,653,135</b>

(a) Includes tax credits on temporary differences arising from the merged company Credifibra S.A.



## Banco Fibra S.A.

### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

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## 4. Significant accounting practices

### a. Consolidation practices

In the preparation of the consolidated financial statements (Financial Economic Consolidation - CONEF), identified as "Fibra Consolidated", the Bank adopted the consolidation criteria of the Chart of Accounts for Institutions of the National Financial System (COSIF), established by Circular Letter 1,273/87. The consolidated financial statements include BANCO FIBRA, its foreign branch and its direct subsidiaries, listed below:

<u>Corporate name</u>	<u>Activity</u>	<u>Holding</u>	
		<u>2012</u>	<u>2011</u>
<b>Subsidiaries:</b>			
Fibra Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda.	Distribution of securities and fund management	99.999%	99.999%
Fibra Cia. Securitizadora de Créditos Imobiliários	Acquisition of real estate receivables	99.958%	99.958%
Fibra Cia. Securitizadora de Créditos Financeiros	Acquisition of financial receivables	99.999%	99.999%
Fibra Projetos e Consultoria Econômica Ltda.	Consulting services and economic analysis	99.999%	99.999%
Credifibra S.A. – Crédito Financiamento e Investimento	Loan company	-	99.999%
Validata Meios de Pagamentos Ltda.	Credit card management company	100.00%	

### **Description of the main consolidation procedures**

- Intercompany assets and liabilities balances are eliminated;
- Investments in capital, reserves and retained earnings of subsidiaries are eliminated;
- Intercompany revenues and expenses, as well as unrealized profits on intercompany transactions, are eliminated; and
- Non-controlling interest amounts are shown separately in the consolidated financial statements.

**Banco Fibra S.A.**

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**b. Determination of results**

Income and expenses arising from asset and liability instruments are recognized on the accrual basis and take into account the effects on instruments subject to price level restatement on a daily pro rata basis. Asset and liability instruments incorporating an exchange variation clause are adjusted according to the foreign purchase or sale rate on the balance sheet date, as provided for in the respective contracts.

Income from loan operations is not accrued when the payment of the principal or charges is overdue for 60 days or more.

**c. Cash and cash equivalents**

These are comprised of available funds in local and foreign currency and short-term interbank investments maturing in up to 90 days, with immaterial risk of change in fair value. Cash and cash equivalents are used by the Bank to manage its short-term commitments **(Note 5)**.

**d. Short-term interbank investments**

These are valued at the cost of acquisition plus interest accrued up to the balance sheet date and adjusted to market value, if applicable. Investments in foreign currency are stated at the cost of acquisition plus accrued income calculated on a daily pro rata basis and the foreign exchange variations recorded up to the balance sheet dates **(Note 6)**.

**e. Marketable securities**

Marketable securities are recorded at acquisition cost restated at the index and/or effective interest rate, and presented in the balance sheet in conformity with BACEN Circular Letter 3,068/01. Securities are classified as follows **(Note 7a)**:

- **Trading securities** - securities acquired to be frequently and actively traded, adjusted to market value with a corresponding entry to the results for the period;
- **Available-for-sale securities** - securities that can be negotiated but are not acquired to be actively and frequently traded. They are adjusted to their market value with a corresponding entry to a specific account in equity;
- **Held-to-maturity securities** – securities valued at acquisition cost plus interest earned. Classification in this category is contingent upon the Bank's financial capacity to hold the securities up to maturity. Management does not consider the possibility of selling these securities.

**Banco Fibra S.A.**

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**f. Derivative financial instruments**

In accordance with BACEN Circular Letter 3,082/02, derivative financial instruments are valued and recorded at market value and classified as "hedge" or "non-hedge". Hedge instruments are classified as: (i) "market risk hedge"; or (ii) "cash flow hedge". The criteria for recording these instruments are as follows: for derivative financial instruments not intended to be used as hedge, as well as for those classified as market risk hedge, adjustments to market value are recorded against the appropriate income or expense account, in the statement of income for the period. For derivative financial instruments intended to be used as cash flow hedge, the effective portion of the hedge must be accounted for against a separate equity account, while any other changes must be recorded against the appropriate income or expense account in the statement of income for the period. Following the changes introduced by BACEN Circular Letter 3,150/02, this treatment is also given to those financial instruments which are traded in connection with funding or fund investment transactions, while remeasurement at market value is not required under certain conditions set out in the rule **(Notes 7b, 7c, 7d and 7e)**.

**g. Provisions for impairment of loans and other receivables**

These provisions are recorded at amounts considered sufficient to cover any possible losses arising on their collection. The National Monetary Council (CMN) established, through Resolution 2,682/99, criteria to be followed in the risk analysis of clients with active balances and the parameters for recognizing the provision, which are based on past experience and specific sector or portfolio risks **(Note 10d)**.

In addition to the core rule in Resolution 2,682/99, the Bank records an additional provision of 2.5% of the balance of portfolios assigned under co-obligation, based on historical losses on the balance of portfolios assigned under co-obligation, prior to the effective period of BACEN Resolution 3,533/08.

**h. Assets not for own use**

Assets received in lieu of payment due to the enforcement of guarantees for loans are recorded in "Other assets" and include provisions at amounts considered sufficient to cover probable losses on their realization.

**i. Prepaid expenses**

Prepaid expenses mainly comprise commissions paid to service providers resulting from the prospecting of retail operations, which are controlled according to contracts. These expenses are allocated to the statement of income according to the term of the contracts **(Note 18b)**.

**Banco Fibra S.A.**

**Notes to the financial statements**  
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**j. Investments**

Investments in subsidiaries are recorded on the equity method of accounting. Other investments are stated at acquisition cost, net of allowance for losses, when applicable. The book balances of entities located abroad have been translated into reais based on the U.S. dollar exchange rate on the closing date. For the purposes of calculating equity results and consolidation, these balances have been adjusted in accordance with accounting practices adopted in Brazil applicable to financial institutions authorized to operate by BACEN (**Note 11a**).

**k. Property and equipment, deferred charges and intangible assets**

Depreciation of property and equipment and amortization of deferred charges and intangible assets are calculated on the straight line method, at the following annual rates, according to the economic useful lives and terms:

- (i) Property and equipment:** vehicles and computer systems, 20%; facilities, furniture and equipment for own use, telecommunications systems, and security systems - 10%;
- (ii) Deferred charges:** BACEN Circular Letter 3,357, which became effective on December 3, 2008, restricts the recording of new assets under deferred charges, only allowing the maintenance of the existing balance until it is fully amortized or written off;
- (iii) Intangible assets:** correspond to the expenditures amortized on the straight-line basis at the rate of 20 % p.a. over the estimated benefit period, and goodwill on the acquisition of investments based on the expectation of future results, amortized at the rate of 10% per annum and tested for impairment at least annually (**Note 11**).

**l. Other current assets and long-term receivables**

These are stated at acquisition cost, including, when applicable, accrued earnings and monetary variations, net of the corresponding provisions for impairment or adjustments to realizable value.

**m. Income tax and social contribution (assets and liabilities)**

Deferred tax assets calculated on income tax and social contribution losses and temporary additions are recorded in "Other receivables - sundry".

Tax credits on temporary additions are realized upon the use and/or reversal of the corresponding provisions in respect to which they were recorded. Tax credits on income tax and social contribution losses are realized as taxable income is generated.

Deferred income tax and social contribution liabilities, calculated on temporary differences, are recorded under "Other liabilities - tax and social security".

## **Banco Fibra S.A.**

### **Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012**

*(All amounts in thousands of reais unless otherwise stated)*

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The provision for income tax is calculated at the standard rate of 15% on taxable income, plus a 10% surcharge on the portion of taxable income that exceeds R\$ 240 per year, and includes the portion corresponding to fiscal incentives.. The provision for social contribution is calculated at the rate of 15% of adjustable accounting profit, in accordance with the current legislation. The effects are described in detail in **Note 19**.

#### ***n. Contingencies and legal obligations***

The recognition, measurement and disclosure of contingent assets and liabilities and legal obligations are carried out according to the criteria defined in CPC Technical Pronouncement 25, approved by CMN Resolution 3,823/09 (**Note 20**).

- i. Contingent assets:** these are not recognized, except when a favorable, unappealable legal decision characterizes the gain as virtually certain. Contingent assets with probability of success are only disclosed in a note to the financial statements.
- ii. Contingent liabilities:** these are individually evaluated, according to the nature of lawsuits.
- iii. Legal obligations:** these are recognized and provided for in the balance sheet, regardless of the probability of a favorable outcome in court.

#### ***o. Current and long-term liabilities***

These are stated at known or estimated amounts including incurred charges and monetary and exchange variations up to the balance sheet date.

#### ***p. Accounting estimates***

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires the use of management's judgment to determine and record accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the evaluation of intangible assets, provision for impairment of loans and other receivables, provision for impairment of certain assets, deferred income tax and social contribution assets, provision for contingencies and valuation of marketable securities and derivative instruments. The settlement amounts of the transactions may differ from these estimates due to inaccuracies inherent to the determination process. BANCO FIBRA periodically reviews its estimates and assumptions.

## Banco Fibra S.A.

### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

(All amounts in thousands of reais unless otherwise stated)

#### q. Changes in accounting practices as from January 1, 2012

- (i) Resolution 3,533/08 of BACEN is effective as from 2012 and establishes new accounting criteria with respect to the derecognition of assigned assets when a substantial portion of risks is retained, such as is the case of assignments of credits under co-obligation and assignments to credit rights investment funds (FIDCs) for the acquisition of subordinated quotas.
- (ii) Resolution 4,007/12 of BACEN approved the adoption of CPC 23 - Accounting policies, changes in estimates and correction of errors as from January 1, 2012.

#### 5. Cash and cash equivalents

For purposes of the statement of cash flows, the balance of cash and cash equivalents is comprised as follows:

	<u>Banco Fibra S.A.</u>	<u>Fibra Consolidated</u>	
	<u>2012</u>	<u>2012</u>	<u>2011</u>
Cash	52,270	52,339	85,353
Cash equivalents (1)	-	-	18,758
<b>Total</b>	<b><u>52,270</u></b>	<b><u>52,339</u></b>	<b><u>104,111</u></b>

(1) Refers to investments in foreign currency maturing within 90 days from the date of acquisition.

#### 6. Short-term interbank investments

Short-term interbank investments are as follows:

	<u>Banco Fibra S.A.</u>	<u>Fibra Consolidated</u>	
	<u>2012</u>	<u>2012</u>	<u>2011</u>
<b>Money market investments</b>	<b><u>800,986</u></b>	<b><u>800,986</u></b>	<b><u>244,544</u></b>
<b>Own portfolio position</b>	<b><u>800,986</u></b>	<b><u>800,986</u></b>	<b><u>244,544</u></b>
Financial Treasury Bills (LFT)	-	-	244,544
National Treasury Bills (LTN)	360,093	360,093	-
National Treasury Notes (NTN)	440,893	440,893	-
<b>Interbank deposits</b>	<b><u>47,950</u></b>	<b><u>47,950</u></b>	<b><u>65,620</u></b>
<b>Foreign currency investments</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>18,758</u></b>
<b>Total</b>	<b><u>848,936</u></b>	<b><u>848,936</u></b>	<b><u>328,922</u></b>

**Banco Fibra S.A.**

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**7. Marketable securities and derivative financial instruments**

**a. Classification of the portfolio of marketable securities and derivative financial instruments according to the business strategy:**

	<b>Banco Fibra S.A</b>	
	<b>2012</b>	
	<b>Amortized cost</b>	<b>Accounting/market value</b>
<b>Short term</b>		
<b>Trading securities</b>	<b>510,351</b>	<b>520,733</b>
Financial Treasury Bills (LFT)	185,252	185,241
National Treasury Notes (NTN)	167,875	178,111
National Treasury Bills (LTN)	6,945	7,033
Others - (CPR)/ Agribusiness Receivables Certificates (CDCA)	41,811	41,948
Investment fund quotas	108,363	108,363
Other	105	37
<b>Available-for-sale securities</b>	<b>26,933</b>	<b>32,507</b>
National Treasury Bills (LTN)	19,995	19,995
Euronotes and Commercial Papers	6,938	12,512
<b>Derivative financial instruments</b>	<b>30,242</b>	<b>41,265</b>
Swap differences receivable	20,916	25,505
Exercisable option premiums	7,963	13,975
Non Deliverable Forward - NDF	1,363	1,785
<b>Total short term</b>	<b>567,526</b>	<b>594,505</b>
<b>Long term</b>		
<b>Available-for-sale securities</b>	<b>358,421</b>	<b>384,880</b>
Euronotes and Commercial Papers	311,798	336,065
National Treasury Notes (NTN)	46,623	48,815
<b>Derivative financial instruments</b>	<b>78,644</b>	<b>97,010</b>
Swap differences receivable	78,124	95,848
Exercisable option premiums	520	1,162
<b>Total long term</b>	<b>437,065</b>	<b>481,890</b>
<b>Total securities portfolio</b>	<b>1,004,591</b>	<b>1,076,395</b>

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	<b>Fibra Consolidated</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Amortized cost</b>	<b>Accounting/market value (1)</b>	<b>Amortized cost</b>	<b>Accounting/market value(1)</b>
<b>Trading securities</b>	<b>520,692</b>	<b>531,068</b>	<b>908,850</b>	<b>912,340</b>
Financial Treasury Bills (LFT)	195,593	195,576	209,337	209,321
National Treasury Notes (NTN)	167,875	178,111	423,507	428,559
National Treasury Bills (LTN)	6,945	7,033	62,124	62,307
Others - CPR/ CDCA	41,811	41,948	48,691	46,962
Investment fund quotas	108,363	108,363	165,191	165,191
Other	105	37	-	-
<b>Available-for-sale securities</b>	<b>19,995</b>	<b>19,995</b>	<b>122,467</b>	<b>122,776</b>
National Treasury Bills (LTN)	19,995	19,995	122,322	122,669
Euronotes and Commercial Papers	-	-	145	107
<b>Derivative financial instruments</b>	<b>26,693</b>	<b>34,863</b>	<b>6,472</b>	<b>11,073</b>
Swap differences receivable	17,367	19,103	6,472	11,073
Exercisable option premiums	7,963	13,975	-	-
Non Deliverable Forward - NDF	1,363	1,785	-	-
<b>Total short term</b>	<b>567,380</b>	<b>585,926</b>	<b>1,037,789</b>	<b>1,046,189</b>
<b>Long term</b>				
<b>Available-for-sale securities</b>	<b>51,961</b>	<b>54,996</b>	<b>146,071</b>	<b>145,705</b>
Euronotes and Commercial Papers	5,338	6,180	7,468	7,100
National Treasury Notes (NTN)	46,623	48,816	-	-
National Treasury Bills (LTN)	-	-	138,603	138,605
<b>Derivative financial instruments</b>	<b>45,253</b>	<b>59,580</b>	<b>33,853</b>	<b>38,009</b>
Swap differences receivable	44,733	58,418	33,853	38,009
Exercisable option premiums	520	1,162	-	-
<b>Total long term</b>	<b>97,214</b>	<b>114,576</b>	<b>179,924</b>	<b>183,714</b>
<b>Total securities portfolio</b>	<b>664,594</b>	<b>700,502</b>	<b>1,217,713</b>	<b>1,229,903</b>

**(1)** The market value of "Available-for-sale securities", "Trading securities" and "Derivative financial instruments" was determined based on the following criteria:

- **Government securities, shares and quotas in investment funds:** market prices or market agent quotations.
- **Euronotes:** pricing methodology using prices quoted in the secondary market as reference.
- **Swaps:** based on the notional amount of each leg of the swap contract, considering the cash flow discounted to present value at the futures market interest rate based on the pricing model developed by management.

At December 31, 2012 and 2011, the Bank did not have any held-to-maturity securities.



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**b. Derivative financial instruments**

BANCO FIBRA enters into derivative transactions, which are intended to reduce its own or the clients' exposure to market, currency and interest risks. These risks are managed through the establishment of limits and operation strategies, as detailed in **Note 8**.

Derivatives, in accordance with their nature and specific legislation, are recorded in asset/liability and/or income/expense accounts. At December 31, 2012 and 2011, the market value of derivative financial instruments was recognized on the balance sheet as follows:

<u>Asset position</u>	<b>Banco Fibra S.A.</b>			
	<b>2012</b>			
	<b>Notional amount</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Differential receivable</b>
CDI x U.S. dollar	167,804	319,792	275,778	44,014
CDI x fixed rate	5,000	5,266	5,251	15
U.S. dollar x CDI	400,700	541,762	500,813	40,949
U.S. dollar X fixed rate	240,109	326,328	301,386	24,942
IGPM x fixed rate	16,000	22,770	22,325	445
IPCA x CDI	69,000	81,920	76,912	5,008
IPCA x fixed rate	204,662	273,629	271,338	2,291
LIBOR x CDI	9,487	11,853	9,734	2,119
Fixed rate x U.S. dollar	26,322	49,656	47,669	1,987
Fixed rate x IPCA	136,995	177,957	176,591	1,366
OTHER INDEXES	-	15,139	-	15,139
<b>Total market value</b>	<b>1,276,079</b>	<b>1,826,072</b>	<b>1,687,797</b>	<b>138,275</b>
<b>Amounts receivable as per the amortized cost basis</b>				<b>99,040</b>

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**Liability position**

<b>Banco Fibra S.A.</b>				
<b>2012</b>				
	<b>Notional amount</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Differential payable</b>
CDI x U.S. dollar	261,692	321,521	348,760	(27,239)
U.S. dollar x CDI	373,298	390,087	394,943	(4,856)
IGPM x fixed rate	5,000	6,915	7,032	(117)
IPCA x fixed rate	278,395	369,266	372,715	(3,449)
Fixed rate x U.S. dollar	13,001	26,482	27,118	(636)
Fixed rate x IPCA	51,462	60,604	60,809	(205)
OTHER INDEXES	-	-	13,807	(13,807)
<b>Total market value</b>	<b>982,848</b>	<b>1,174,875</b>	<b>1,225,184</b>	<b>(50,309)</b>
<b>Amounts payable as per the amortized cost basis</b>				<b>(21,985)</b>

**Asset position**

		<b>Fibra Consolidated</b>							
		<b>2012</b>				<b>2011</b>			
Categories	Notional amount	Assets	Liabilities	Differential receivable	Notional amount	Assets	Liabilities	Differential receivable	
CDI x U.S. dollar	12,704	13,203	13,021	182	241,329	273,751	266,586	7,165	
U.S. dollar x CDI	400,700	541,762	500,813	40,949	154,488	172,676	164,423	8,253	
CDI x fixed rate	5,000	5,266	5,251	15	-	-	-	-	
U.S. dollar x fixed rate	240,109	326,328	301,386	24,942	294,291	333,789	309,571	24,218	
IGPM x fixed rate	16,000	22,770	22,325	445	-	-	-	-	
IPCA x CDI	69,000	81,920	76,912	5,008	63,000	82,928	78,506	4,422	
IPCA x fixed rate	204,662	273,629	271,338	2,291	117,198	143,984	142,669	1,315	
LIBOR x CDI	9,487	11,853	9,734	2,119	-	-	-	-	
Fixed rate x U.S. dollar	26,322	49,656	47,669	1,987	-	-	-	-	
Fixed rate x IPCA	136,995	177,957	176,591	1,366	152,152	168,503	166,347	2,156	
OTHER INDEXES	-	15,139	-	15,139	901	1,553	-	1,553	
<b>Total market value</b>	<b>1,120,979</b>	<b>1,519,483</b>	<b>1,425,040</b>	<b>94,443</b>	<b>1,023,359</b>	<b>1,177,184</b>	<b>1,128,102</b>	<b>49,082</b>	
<b>Total</b>				<b>62,100</b>				<b>40,595</b>	
<b>Amounts receivable as per the amortized cost basis</b>									

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**Liability position**

	Fibra Consolidated							
	2012				2011			
	Notional amount	Assets	Liabilities	Differential payable	Notional amount	Assets	Liabilities	Differential payable
<b>Total</b>								
CDI x U.S.dollar	261,692	321,521	348,762	(27,241)	42,393	47,519	48,082	(563)
U.S. dollar x CDI	53,764	71,496	73,671	(2,175)	434,210	492,477	510,706	(18,229)
IGPM x fixed rate	5,000	6,915	7,032	(117)	21,000	24,169	24,651	(482)
IPCA x fixed rate	278,395	369,266	372,715	(3,449)	345,679	390,120	395,706	(5,586)
PRE X CDI	-	-	-	-	-	-	-	-
U.S. dollar x fixed rate	-	-	-	-	3,513	3,486	3,538	(52)
Fixed rate x U.S. dollar	13,001	26,482	27,118	(636)	4,104	4,008	4,118	(110)
Fixed rate x IPCA	51,462	60,604	60,808	(204)	398	447	448	(1)
IPCA x CDI	-	-	-	-	20,000	20,306	20,355	(49)
OTHER INDEXES	-	-	13,807	(13,807)	2,044	-	3,131	(3,131)
<b>Total market value</b>	<b>663,314</b>	<b>856,284</b>	<b>903,913</b>	<b>(47,629)</b>	<b>873,341</b>	<b>982,532</b>	<b>1,010,735</b>	<b>(28,203)</b>
Amounts payable as per the amortized cost basis				<b>(19,801)</b>				<b>(9,447)</b>

At December 31, 2012 and 2011, gains and losses for the year relating to derivative financial instruments presented a net effect of R\$ 146 on the results of BANCO FIBRA and R\$ 45,355 on FIBRA CONSOLIDATED (R\$ 40,326 in 2011) and R\$ 21,089 on equity of BANCO FIBRA and FIBRA CONSOLIDATED (R\$ 16,901 in 2011). BANCO FIBRA maintains a net position in derivative financial instruments, mainly to hedge its foreign funding from the effects of foreign exchange variations.

**c. Maturity terms of marketable securities and derivative financial instruments**

Banco Fibra S.A.	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	5 to 15 years	Total 2012
<b>Categories</b>						
Trading securities	379.744	140.989	-	-	-	<b>520.733</b>
Available for sale securities	24.916	7.591	156.527	4.809	223.544	<b>417.387</b>
Derivative instruments - assets	14.135	27.130	55.812	29.968	11.230	<b>138.275</b>
<b>Total</b>	<b>418.795</b>	<b>175.710</b>	<b>212.339</b>	<b>34.777</b>	<b>234.774</b>	<b>1.076.395</b>
Derivative instruments - liabilities	(9.494)	(9.260)	(8.010)	(23.545)	-	<b>(50.309)</b>
<b>Total</b>	<b>(9.494)</b>	<b>(9.260)</b>	<b>(8.010)</b>	<b>(23.545)</b>	<b>-</b>	<b>(50.309)</b>

**Banco Fibra S.A.****Notes to the financial statements  
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	<b>Up to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>Total 2012</b>	<b>Total 2011</b>
<b>Fibra Consolidado S.A.</b>						
<b>Total</b>						
Trading securities	390.011	141.057	-	-	<b>531.068</b>	<b>912.340</b>
Available for sale securities	19.995	-	54.996	-	<b>74.991</b>	<b>268.481</b>
Derivative instruments - assets	14.136	20.727	30.132	29.448	<b>94.443</b>	<b>49.082</b>
<b>Total</b>	<b>424.142</b>	<b>161.784</b>	<b>85.128</b>	<b>29.448</b>	<b>700.502</b>	<b>1.229.903</b>
Derivative instruments - liabilities	(9.495)	(6.579)	(8.010)	(23.545)	<b>(47.629)</b>	<b>(28.203)</b>
<b>Total</b>	<b>(9.495)</b>	<b>(6.579)</b>	<b>(8.010)</b>	<b>(23.545)</b>	<b>(47.629)</b>	<b>(28.203)</b>

The total notional amounts of swap contracts recorded at the Central System for Custody and Financial Settlement of Securities (CETIP) and BM&FBOVESPA S.A., as at December 31, 2012, amounted to R\$ 2,224,202 in BANCO FIBRA and R\$ 1,749,568 (R\$ 2,595.448 in 2011) in FIBRA CONSOLIDATED.

At December 31, 2012, margins deposited in guarantee of derivative financial instruments amounted to R\$ 260,638 (R\$ 281,298 in 2011) in BANCO FIBRA and FIBRA CONSOLIDATED.

**Banco Fibra S.A.**

**Notes to the financial statements**  
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**d. Futures and forward instruments**

The instruments carried out in the futures and forward markets are recorded in BANCO FIBRA at the following notional amounts:

<b>FUTURES CONTRACTS</b>	<b>NOTIONAL AMOUNTS</b>
	<b>2012</b>
Future DI 1 purchased	6,985,652
Future DI 1 sold	4,197,182
Future U.S. dollar purchased	112,562
Future U.S. dollar sold	693,617
Future DDI purchased	8,055
Future DDI sold	447,423
Foreign Exchange Swap (SCC) sold	203,762
Non Deliverable Forward - NDF purchased	50,470
Non Deliverable Forward - NDF sold	18,818
Options purchased	15,171
Options sold	13,300

**e. Cash flow and market risk hedge**

At December 31, 2012, the Bank had cash flow hedge structures linked to swap and DI futures contracts, at the restated amount of R\$ 3,485,801, and market risk hedge structures linked to swap contracts, at the notional amount of R\$ 806,563 with maturities ranging from January 2013 to December 2016.

The results of the mark-to-market adjustment of the derivatives designated as cash flow hedges are recorded in equity, corresponding to a charge of R\$ 21,089, net of tax effects. The market value of Time Deposits and Foreign Funding classified as "market risk hedges" is R\$ 806,263, and as "cash flow hedges" is R\$ 3,467,456.

Market risk hedge structures include swap transactions maturing up to December 2016 and intended to protect the Bank from fluctuations in funding in foreign currencies.

The effectiveness of the cash flow and market risk hedge structures is measured every month and the related evidence is submitted to the Financial Instrument, Securities and Portfolio Valuation and Classification Sub-committee through the financial result arising from the market value of derivatives designated as hedges and the hedged instruments.

The effectiveness verified in the hedge portfolio at December 31, 2012 is in conformity with the standard established by BACEN and no ineffective portion to be accounted for during the six-month period was identified.

The instruments above do not represent the Bank's global exposure to market, currency and interest rate risks, since they only include the derivative financial instruments used as hedges.

## **Banco Fibra S.A.**

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## **8. Risk management**

In view of the evolution of the market and the products and services it offers, the Bank, always in line with the best international practices, continually seeks excellence in risk management and control.

BANCO FIBRA's Board of Directors plays a key role in the risk management structure and actively approves the main strategies and policies in this area, thus demonstrating the high importance of the Bank's corporate governance.

The prior identification of the risks inherent to new products is performed by the Risk Control Area, within the Product Committee, which evaluates all the impacts before implementation.

The Risk areas are under the structure of the Accounting, Internal Controls and Risks Executive Board and include the Risk Control area, which comprises the Market Risk, Liquidity Risk and Credit Risk activities, and the Operational Risk area. Risk integration is carried out by the Global Risk Committee, which addresses all relevant matters, and therefore enables economies of scale, information sharing and the strengthening of those management policies designed to protect the Bank's capital.

The Bank's risk management processes and controls are intended to ensure compliance with the current regulations, the adoption of best practices in market documentation, taking avail of domestic and international benchmarking. This model consists of clearly documented policies and strategies which establish limits and procedures designed to maintain the exposure to different risks within acceptable levels.

### **a. Market risk management**

#### **Introduction and structure**

BANCO FIBRA has a set of policies, process descriptions and manuals in place to guide market risk management and control. The Market Risk Management Internal Rules set out in detail the responsibilities of individual areas for risk management and control, in addition to describing the tools used, limits applied and actions triggered when such limits are not complied with. The Rules also describe the regulations over market risks and the main committees involved. The Bank acknowledges the importance of the active involvement of senior officers in market risk management. The risk management structure comprises the Global Risk Committee, Market Risk Committee, Asset & Liability Committee (ALCO), and the Financial Instrument, Securities and Portfolio Valuation and Classification Sub-committee.

Any changes/reviews in the Market Risk Management Internal Rules are submitted to the approval of the Accounting, Internal Controls and Risks Executive Board, as well as the Market Risk Committee, Internal Controls Committee, and Board of Directors.

## **Banco Fibra S.A.**

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#### **Criteria and methodologies**

The market risk management of positions assumed by the Bank uses a set of proper controls for each portfolio, which are linked to limits essentially relating to 3 types of controls: risk, result, and exposure.

#### **Portfolios**

- Trading: The trading portfolio consists of all operations with financial instruments and commodities, including derivatives, held with the intention of trading or as a hedge of other elements of the portfolio, and which do not have limitation of marketability.
- Banking: consists of structural operations and their hedges, as well as operations for the active management of the portfolio, referred to as Assets & Liability Management (ALM).

#### **Controls**

##### **Risk:**

- VaR: applied to the Trading Portfolio - VaR (Value at Risk) is calculated on the parametric model (the Monte Carlo model is used in the options portfolio as well as in the Trading portfolio when the options VaR surpasses 10% of VaR Trading), and provides the expected loss given a level of confidence of 99%.
- Stress - considering extreme scenarios, evaluates the maximum potential loss from a portfolio (Trading and Total).
- CPV (Concentration per Vortex) - monitors the distribution of the losses from each of the extremes adopted by applying stress scenarios.
- EVE (Economic Value of Equity) - consists of the impact on the present value of the portfolio, taking into consideration the effects of fixed interest rates over a specified holding period.

##### **Result:**

- MAT - effective loss alerts which require decisions by the appropriate level of authority in the event of extrapolation.
- Stop Loss -- effective loss limit.

##### **Exposure:**

- Government securities
- Exchange rate exposure

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### **Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012**

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#### **Information flow**

The utilization of limits is monitored by the Market Risk area and disclosed on a daily basis to senior management, treasury area and internal audit, and on a monthly basis to the above mentioned committees.

The calculation of risk, construction of curves and prices are carried out through the market risk system, which generates values that are analyzed and approved by the market risk management daily. The methodologies and assumptions used are also verified by an area independent of the Internal Validation area. All methodologies used, as well as any changes, are previously discussed and approved by the Market Risk Committee and approved by the Board of Directors.

#### **b. Liquidity risk management**

Liquidity is the entity's capacity to honor its obligations on the maturity date without incurring substantial losses. This capacity is related to the balance of the entity's assets and liabilities in relation to terms and currencies. The inability to honor these obligations and/or the fact that this is possible only by incurring losses represents the entity's liquidity risk.

The liquidity risk may be divided into cash flow risk and market liquidity risk. Cash flow risk is the risk that the entity has a mismatch between assets and liabilities such that in a certain period the cash inflow is not sufficient to pay its debts. Market liquidity risk is when the positions assumed by the entity may suffer a great depreciation due to lack of liquidity shortage.

For the purpose of managing the liquidity risk exposure, the Bank adopts instruments to control cash flow and to forecast needs or excess funds in advance, so as to enable the implementation of preventive measures. Such instruments include projected cash flows and simulation of payment events or renewal of operations.

Senior management receives, on a daily basis, a map to monitor liquidity, as well as the minimum liquidity reserve, which is used as a reference to determine a possible liquidity contingency. Some of the control instruments used by the Bank are defined below:

- Cash position control - Determination of changes in assets, funding and other operations on that date, and of available cash, both at the daily opening and closing. The minimum liquidity reserve corresponds to the cash comfort level considered adequate for the management of assets and liabilities. The projection and evaluation of the minimum liquidity reserve is defined by the Asset & Liability Committee (ALCO), a group that meets on a monthly basis.
- Liquidity risk control - The liquidity level is monitored on a daily basis, taking into account the maturity flows until maturity of the asset and liability portfolios lapses. Also, ALCO performs monthly analyses of the mismatch of terms between assets and liabilities into time buckets, which define the alternatives for the management of the minimum cash level to be maintained by the Bank, compatible with the risk exposure resulting from the characteristics of its assets and liabilities, its capital ratio and market conditions. This is used as a



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parameter to control liquidity and to activate the Contingency Plan whenever any risk of insufficient liquidity is identified.

- Liquidity contingency plan - This management tool defines the actions and measures that should be taken when a short-term liquidity projection indicates levels lower than the minimum level defined. In the event of a shortfall of funds and worsening of financial market crises, this plan encompasses a number of alternatives: external funding; credit assignments; guarantees and surety bonds; fund raising from parent group companies; decrease or even suspension of credit assignment until liquidity has been normalized; and sale of the private securities portfolio.
- Application of stress scenario - Simulation of an adverse scenario for those instruments which comprise the Bank's assets and liabilities, in order to measure the impacts of strong outflows of funds, thus anticipating potential liquidity problems. This control is performed on a daily basis and the exposure is presented to ALCO.

#### **c. Credit risk management**

##### **Introduction and structure**

Credit Risk is defined as the likelihood of losses arising from the inability of borrowers to honor their obligations within contractual terms and conditions, the reduction in gains and remuneration, recovery costs, and impairment of the credit contract.

Credit risk control is physically and logically segregated from the business and credit areas and is independent both with respect to its responsibilities pursuant to the bylaws and organizational structure.

To facilitate risk management and control, all systemic procedures, methodologies and tools are documented and made available internally to all employees; they are also periodically reviewed and approved by the personnel in charge.

##### **Criteria and methodologies**

The Credit Risk Control area is responsible for the analysis and monitoring of the credit portfolio, assessment of commitment of Reference Equity (PR), exposure limits adopted by the Bank, qualitative and quantitative assessment of selected transactions that are proposed by investors and business partners, in addition to the monitoring of portfolio default.

The quality of the credit portfolio is monitored daily and informed to senior management in a specific report based on managerial positions. Additionally, at a monthly committee, the accounting position of the portfolio is presented in view of the evolution of the rating, movement in default levels and the coverage index regarding operations in default.

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Moreover, concentration is monitored and informed daily to senior management through a specific report, which presents, based on a managerial view, the distribution per risk level, economic sectors, commercial segmentation, products, guarantees and details of the major players. The main metrics used to monitor the concentration are the operating limits (maximum percentages of commitment of Reference Equity) established in internal rules and discussed on a monthly basis in the Credit Risk Committee.

The other item monitored by the area is the internal rating model (rating Banco Fibra). Such monitoring involves the assessment of the coverage of the provision determined by the rating model in relation to the minimum regulatory amount and the effective amount after a certain period after the beginning of the operation. Such measures aim at improving the internal model and ensure that there are no inconsistencies in the provisions.

#### **d. Operational risk management**

##### **Introduction**

BANCO FIBRA defines and treats Operational Risk management in accordance with the provisions of CMN Resolution 3,380, such as the possibility of losses resulting from flaws, deficiencies or inadequacy of internal processes, personnel and systems or external events.

This definition includes the legal risk associated with the inadequacy or deficiency in contracts entered into by the Bank, as well as penalties driven by the non-compliance with legal provisions, and damages payable to third parties as a result of activities carried out by the Bank.

The whole management process of operational risk is regularly monitored by governance forums, which are responsible for the decision whether to assume or not material operational risks and, as a last resort, to require a specific action plan.

The Operational Risk management structure adopts an active, efficient model to map the Banks structure, processes, activities, evaluation of operational risks, as well as the related mitigating controls, develop action plans to minimize risks and keep senior management informed of the circumstances so that it can explicitly determine any actions to be taken to resolve deficiencies identified on a timely basis.

For managing the Operational Risk, the Bank adopts the eight categories of risk events of Art. 2 § 2 of CMN Resolution 3,380/09 and of the Basel Committee, as well as the eight business areas:

#### **CATEGORIES**

- I. Internal fraud
- II. External fraud
- III. Labor claims
- IV. Inadequate practices
- V. Damage to physical assets
- VI. Business disruption
- VII. IT systems failures
- VIII. Failures in activities execution

#### **BUSINESS AREAS**

- I. Treasury
- II. Clients
- III. Wholesale
- IV. Asset management
- V. Vehicles
- VI. Payroll loans
- VII. Cards
- VIII. Direct Consumer Lending (CDC)

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#### **Measurement for capital allocation of the operational risk**

Currently the Bank adopts the capital allocation model named "Standard Alternative Approach" defined by BACEN Circular Letter 3,383/08.

#### **Operational risk structure**

To support decisions on material risks and related mitigating measures, the Bank has a structure of Committees which have a voice in the decision-making process for Operational Risk, comprised by:

- Global Risks Committee;
- Operational Risk Sub-committee.

#### **Operational risk management cycle**

##### **Identification and assessment**

The Operational Risk Structure defined that the operational risk management should use a cyclical and dynamic process, involving the structure of processes, operational risks, internal controls and compliance agents, in order to identify and assess new risks and potential changes in existing risks, thus ensuring the required identification, updating, governance and transparency throughout the process.

The identification and assessment of the operational risks inherent to products, services, processes and systems are made through a mapping of the risks and controls in the various implemented processes, of the various areas of the Group, with the effective and periodic contribution of the compliance agents.

Also, the Bank ensures that new operational risks are identified and assessed before new products are launched, through the participation of the Operational Risk Management in the Product Committee, providing its opinion for proper handling and approval.

The methodology of identification and measurement of operational risk levels is applied:

- self-assessment processes (CSA - Control Self Assessment) performed on an annual basis by managers, in order to identify and map risks and controls in place, as well as to quantify the likelihood of their occurrence and ensuing financial impact;
- capture and determination of operational risk events through a communication channel disclosed by Compliance Agents, where the Compliance Agents have the opportunity of communicating the events occurring in their respective areas, inputting such events into a database to build indicators and a statistical basis designed to support the identification and assessment of operational risks;
- formalization of the identification of operational risks from new products, services and systems before they are launched;
- assessment and suggestion of internal control measures to mitigate risks and verify their appropriateness and updating in the monitoring systems;
- regular review of the mapping of processes, risks and controls.

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#### **Monitoring, control and mitigation**

At BANCO FIBRA the monitoring, control and mitigation of the operational risks are the stages used for closing the management cycle of the operational risks identified, inherent to the activities developed by the Bank, with an effective internal control system, reducing the possibility of human errors and irregularities in processes and systems, safekeeping its assets, minimizing the risk of losses and violations of laws and regulations.

#### **Business Continuity Plan (BCP)**

The BCP uses a team approach to respond to emergencies and operational disruptions in the Bank. Each team has specific responsibilities which enable communication during the business disruption period. The model is intended to allow for the coordination of central activities associated with the recovery of critical functions and delivery of the related products and services.

The model structure contemplates the use of resources to support the business continuity activities. The business areas are the owners of the recovery procedures and related rewards or risks. Decisions regarding the business continuity planning are taken by ad-hoc committees as required by the Bank.

#### **e. Internal controls and internal validation**

The Internal Control area assesses the effectiveness and consistency of controls in different areas to ascertain that they are in line with the nature, complexity and risks of the procedures. The Internal Validation area confirms whether the purpose, data and tests of results of the models of the Risk Control area are consistent and complete.

In order to ensure the monitoring of the internal controls identified, and which are in accordance with the risk response given by senior management, the internal control structure performs periodic control tests with the compliance agents, thus re-feeding the risk matrix.

The overall results obtained by the two areas ensure a higher assertiveness in decisions taken by the Bank to manage its risks.

#### **f. Capital management**

As laid down in Resolution 3,988 of June 30, 2011, the Bank and other companies of its financial group prepare annually their Capital Plan. This Plan considers the macroeconomic scenario, the complexity of the operations, products and services offered, as well as the exposure to risks inherent to the financial activity and covers a three-year horizon through a projection of results, profit sharing, breakdown of assets and liabilities, and allocation of results.

The group's capital management structure analyzes the appropriateness of the entities' regulatory and economic capital in compliance with their strategic plan. This analysis includes the main risks to which the entities are exposed, as well as a simulation of severe events that may affect them.

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A complete description of the capital management structure of Banco Fibra and other companies of its financial group can be found in Banco Fibra's website ([www.bancofibra.com.br](http://www.bancofibra.com.br)) and is made available annually, together with the information disclosed under Circular Letter 3,477, of December 24, 2009.

## 9. Loan operations and other credits

We present below the breakdown of loan operations of Fibra Consolidated:

### a. Breakdown of operations - Consolidated

	2012		2011	
	R\$	Percentage on portfolio	R\$	Percentage on portfolio
<b>Loans</b>	<b>7,276,054</b>	<b>88.1</b>	<b>7,539,753</b>	<b>85.7</b>
Working capital and overdraft account	2,513,402	30.4	3,090,936	39.6
Retail portfolio - CDC / CP	853,060	10.3	722,697	7.1
Retail portfolio - payroll loans	379,895	4.6	524,140	6.0
Vehicles portfolio (1)	2,343,517	28.3	2,120,509	21.0
Loans acquired - Other banks (2)	37,148	0.4	55,826	1.5
Onlendings pursuant to Resolution 3,844	584,057	7.1	250,168	2.2
Foreign currency financing (import/export)	148,163	1.8	150,396	1.5
BNDES onlendings	237,073	2.9	493,960	5.7
Vendor and Compror financing	4,277	0.1	30,371	0.3
Other	79,343	1.0	12,320	0.4
Trading - agriculture	96,119	1.2	88,430	0.4
<b>Advances against Exchange and Export Contracts (ACC/ACE) (3)</b>	<b>423,545</b>	<b>5.1</b>	<b>583,985</b>	<b>7.9</b>
<b>Other receivables</b>	<b>124,801</b>	<b>1.5</b>	<b>88,840</b>	<b>0.9</b>
<b>Total portfolio - loans granted</b>	<b>7,824,400</b>	<b>94.7</b>	<b>8,212,578</b>	<b>94.5</b>
<b>Guarantees and surety bonds</b>	<b>444,203</b>	<b>5.3</b>	<b>418,839</b>	<b>5.5</b>
<b>Total portfolio</b>	<b>8,268,603</b>	<b>100.00</b>	<b>8,631,417</b>	<b>100.00</b>

(1) This balance relates to:

(I) Vehicle financing portfolio in the amount of R\$ 2,267,000 (R\$ 1,902,101 in 2011);

(II) Credit rights acquired from Banco Paulista S.A. by the Receivables Securitization Fund (GVI FIDC Financeiro), the balance of which at December 31, 2012 is R\$ 20,504 (R\$ 67,153 in 2011). Banco Fibra S.A. is the exclusive quotaholder of fund GVI FIDC Financeiro, which is being presented in this note for the purpose of demonstrating the total loan portfolio of Fibra Consolidated; and

(III) The portfolio acquired from Banco Sofisa S.A. in March 2010, which in December 2012 has a balance of R\$ 56,013 (2011 - R\$ 151,255).

(2) Refers to the portfolio related to Direct Consumer Lending (CDC), Payroll Loans and Vehicles acquired from other banks, with co-obligation of grantors.

(3) Advances against Exchange and Export Contracts (ACC/ACE) are recorded on the balance sheet under "Other liabilities - foreign exchange portfolio", plus income receivable on advances granted, which are recorded under "Other receivables - foreign exchange portfolio" (**Note 17**). For the purposes of presentation of this note, both amounts are presented as "Loan portfolio".

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**b. Breakdown by activity sector - Consolidated**

	2012		2011	
	R\$	Percentage of portfolio	R\$	Percentage of portfolio
Manufacturing	1,800,566	21.8	2,105,093	24.4
Commerce	1,321,772	16.0	1,396,245	16.2
Services	564,024	6.8	911,259	10.6
Rural	206,437	2.5	175,347	2.0
Housing	381,510	4.6	396,048	4.6
Public sector	1,853	-	3,894	-
Financial intermediaries	324,190	3.9	408,258	4.7
Individuals	3,668,251	44.4	3,235,273	37.5
<b>Total portfolio</b>	<b>8,268,603</b>	<b>100.0</b>	<b>8,631,417</b>	<b>100.0</b>

**c. Concentration of main debtors - Consolidated**

*Without interbank market operations*

	2012		2011	
	R\$	Percentage of portfolio	R\$	Percentage of portfolio
Main debtor	78,623	1.0%	208,733	2.6%
10 largest debtors	409,558	5.0%	557,405	7.0%
20 largest debtors	625,583	7.6%	806,638	10.1%
50 largest debtors	1,127,318	13.6%	1,351,300	16.9%
100 largest debtors	1,708,627	20.7%	2,016,147	25.2%

*Including interbank market operations*

	2012		2011	
	R\$	Percentage of portfolio	R\$	Percentage of portfolio
Main debtor	78,623	1.0%	151,255	1.8%
10 largest debtors	438,356	5.3%	419,298	4.9%
20 largest debtors	664,432	8.0%	638,264	7.4%
50 largest debtors	1,187,614	14.4%	1,132,377	13.1%
100 largest debtors	1,798,498	21.8%	1,746,184	20.3%

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**d. Breakdown by maturity - Consolidated**

	<b>2012</b>		<b>2011</b>	
	<b>R\$</b>	<b>Percentage of portfolio</b>	<b>R\$</b>	<b>Percentage of portfolio</b>
Past due	225,192	2.7	273,099	3.2
Falling due within 30 days	1,061,526	12.8	1,279,631	14.8
Falling due from 31 to 60 days	866,610	10.5	928,339	10.8
Falling due from 61 to 90 days	654,166	8.0	892,122	10.3
Falling due from 91 to 180 days	1,764,506	21.3	1,635,536	18.9
Falling due from 181 to 360 days	1,710,826	20.7	1,558,890	18.1
Falling due after 360 days	1,985,777	24.0	2,063,800	23.9
<b>Total portfolio</b>	<b>8,268,603</b>	<b>100.0</b>	<b>8,631,417</b>	<b>100.0</b>

**10. Classification of loans by risk level and allowance for loan losses - Consolidated**

The risk levels of loan operations are shown below, segregating:

- (i) Retail operations, characterized by Direct Consumer Lending (CDC), personal loans and personal loans with payment installments consigned through payroll.
- (ii) Wholesale operations, characterized by loans and financing intended mainly for legal entities, as well as acquisitions of personal loans acquired and backed by the assignee financial institutions.

**a. Loan portfolio according to risk levels - retail operations**

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*(All amounts in thousands of reais unless otherwise stated)*

Risk levels	%	Performing		Non-performing			Total operations	Total provisions
		In R\$	Provisions	Past due	Not yet due	Provisions		
AA	0.0%	76,518	-	-	-	-	76,518	-
A	0.5%	2,794,908	13,975	-	-	-	2,794,908	13,975
B	1.0%	4,689	47	17,278	177,041	1,943	199,008	1,990
C	3.0%	2,385	71	19,506	138,026	4,726	159,917	4,797
D	10.0%	1,689	169	17,668	78,425	9,609	97,782	9,778
E	30.0%	1,515	454	17,452	52,430	20,965	71,397	21,419
F	50.0%	402	201	15,424	38,620	27,022	54,446	27,223
G	70.0%	384	269	14,301	28,527	29,980	43,212	30,249
H	100.0%	731	731	60,148	72,384	132,532	133,263	133,263
<b>Total in 2012</b>		<b>2,883,221</b>	<b>15,917</b>	<b>161,777</b>	<b>585,453</b>	<b>226,777</b>	<b>3,630,451</b>	<b>242,694</b>
<b>% of the portfolio</b>		<b>34.8</b>		<b>2.0</b>	<b>7.2</b>		<b>43.8</b>	
<b>Total in 2011</b>		<b>2,789,310</b>	<b>12,855</b>	<b>131,940</b>	<b>446,958</b>	<b>142,109</b>	<b>3,368,208</b>	<b>154,694</b>
<b>% of the portfolio</b>		<b>28.6</b>		<b>0.8</b>	<b>2.5</b>		<b>31.9</b>	

**b. Loan portfolio according to risk levels - retail operations**

Risk levels	%	Performing		Non-performing			Total operations	Total provisions	Additional provision (1)	Total provision
		In R\$	Provisions	Past due	Not yet due	Provisions				
AA	0.0%	375,549	-	-	-	-	375,549	-	-	-
A	0.5%	1,361,567	6,808	-	-	-	1,361,567	6,808	-	6,808
B	1.0%	2,013,995	20,140	2,947	6,623	96	2,023,565	20,236	8,365	28,601
C	3.0%	182,222	5,466	12,061	17,767	895	212,050	6,361	2,559	8,920
D	10.0%	94,628	9,463	1,557	5,789	735	101,974	10,198	-	10,198
E	30.0%	3,779	1,134	1,077	6,342	2,226	11,198	3,360	-	3,360
F	50.0%	3,899	1,950	910	4,226	2,568	9,035	4,518	-	4,518
G	70.0%	18,334	12,834	2,449	5,432	5,517	26,215	18,351	-	18,351
H	100.0%	17,400	17,400	42,414	12,982	55,396	72,796	72,796	-	72,796
<b>Total in 2012</b>		<b>4,071,373</b>	<b>75,195</b>	<b>63,415</b>	<b>59,161</b>	<b>67,433</b>	<b>4,193,949</b>	<b>142,628</b>	<b>10,924</b>	<b>153,552</b>
<b>% of the portfolio</b>		<b>54.1</b>		<b>1.4</b>	<b>0.6</b>		<b>56.1</b>			
<b>Total in 2011</b>		<b>4,670,928</b>	<b>93,083</b>	<b>118,367</b>	<b>55,067</b>	<b>138,534</b>	<b>4,844,362</b>	<b>231,617</b>	<b>15,844</b>	<b>247,461</b>
<b>% of the portfolio</b>		<b>54.1</b>		<b>1.4</b>	<b>0.6</b>		<b>56.1</b>			



**Banco Fibra S.A.**

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*(All amounts in thousands of reais unless otherwise stated)*

**c. Loan portfolio according to risk levels - retail operations**

**Total da Carteira de Crédito**

Risk levels	%	Performing		Non-performing			Total operations	Total provisions	Additional provision (1)	Total provision
		In R\$	Provisions	Past due	Not yet due	Provisions				
AA	0.0%	452,067	-	-	-	-	452,067	-	-	-
A	0.5%	4,156,475	20,783	-	-	-	4,156,475	20,783	-	20,783
B	1.0%	2,018,684	20,187	20,225	183,664	2,039	2,222,573	22,226	8,365	30,591
C	3.0%	184,607	5,537	31,567	155,793	5,621	371,967	11,158	2,559	13,717
D	10.0%	96,317	9,632	19,225	84,214	10,344	199,756	19,976	-	19,976
E	30.0%	5,294	1,588	18,529	58,772	23,190	82,595	24,778	-	24,778
F	50.0%	4,301	2,151	16,334	42,846	29,590	63,481	31,741	-	31,741
G	70.0%	18,718	13,103	16,750	33,959	35,497	69,427	48,600	-	48,600
H	100.0%	18,131	18,131	102,562	85,366	187,928	206,059	206,059	-	206,059
<b>Total portfolio - loans granted</b>		<b>6,954,594</b>	<b>91,112</b>	<b>225,192</b>	<b>644,614</b>	<b>294,209</b>	<b>7,824,400</b>	<b>385,321</b>	<b>10,924</b>	<b>396,245</b>
<b>Sureties and guarantees provided</b>		<b>444,203</b>					<b>444,203</b>			
<b>Total in 2012</b>		<b>7,398,797</b>	<b>91,112</b>	<b>225,192</b>	<b>644,614</b>	<b>294,209</b>	<b>8,268,603</b>	<b>385,321</b>	<b>10,924</b>	<b>396,245</b>
<b>% of the portfolio</b>		<b>89.5</b>		<b>2.7</b>	<b>7.8</b>		<b>100.0</b>			
<b>Total in 2011</b>		<b>7,879,085</b>	<b>105,938</b>	<b>250,307</b>	<b>502,025</b>	<b>280,643</b>	<b>8,631,409</b>	<b>386,581</b>	<b>15,844</b>	<b>402,425</b>
<b>% of the portfolio</b>		<b>95.8</b>		<b>1.6</b>	<b>2.6</b>		<b>100.0</b>			

(1) As from July 2011, the Bank adopted a new provision policy for ratings B and C, giving rise to an additional allowance for the wholesale credit portfolio.

**d. Allowance for loan losses - Consolidated**

	2012		
	Retail	Wholesale	Total <sup>(1)</sup>
<b>Opening balance</b>	<b>161,082</b>	<b>247,766</b>	<b>408,848</b>
Written off against provision	(266,215)	(113,833)	<b>(380,048)</b>
Additions to provision in the period	349,159	19,618	<b>368,777</b>
<b>Closing balance</b>	<b>244,026</b>	<b>153,551</b>	<b>397,577</b>

(1) At December 31, 2012, the balance of the allowance for loan losses and for losses on other receivables includes the following: allowance for loan losses of R\$ 349,524, allowance for losses on other receivables of R\$ 46,721 and allowance for credits assigned with co-obligations of R\$ 1,332. The latter is recorded in the account "Other liabilities - sundry".

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	2011		
	Retail	Wholesale	Total (1)
<b>Opening balance</b>	<b>69,153</b>	<b>170,137</b>	<b>239,290</b>
Written off against provision	(106,898)	(62,743)	<b>(169,641)</b>
Additions to provision in the period	198,827	140,372	<b>339,199</b>
<b>Closing balance</b>	<b>161,082</b>	<b>247,766</b>	<b>408,848</b>

(1) At December 31, 2011, the balance of the allowance for loan losses and for losses on other receivables includes the following: allowance for loan losses of R\$ 324,253, allowance for losses on other receivables of R\$ 78,373 and allowance for credits assigned with co-obligations of R\$ 6,222. The latter is recorded in the account "Other liabilities - sundry".

Total loans renegotiated during the year amounted to R\$ 463,272 (R\$ 155,144 in 2011). This balance considers clients who have signed a debt acknowledgment agreement in the case of wholesale and who have renegotiated retail operations.

The total recovery of loans which were written-off in prior periods was R\$ 49,641 (R\$ 19,344 in 2011) in Fibra Consolidated.

The provision to cover loan losses has been established in accordance with CMN Resolution 2,682/99. Although the minimum percentages for each risk level are complied with as a general rule, higher percentages are used within each risk level, which are based on management's judgment and experience.

**e. Loans assigned**

At September 30, 2012, loans in the amount of R\$ 87,747 were assigned to a non-financial company, without retention of risks. This transaction generated a loss of R\$ 12,044, net of tax effects. On the same date, loans in the amount of R\$ 148,200 were assigned to Fundo de Investimento em Direitos Creditórios Multisegmentos NPL Ipanema – Não Padronizado, without retention of risks, of which R\$ 117,154 related to loans written off to loss and R\$ 31,046 to loans of the active portfolio. This transaction generated a gain of R\$ 3,430, net of tax effects, recorded under "Income from financial intermediation of credit operations".

On July 29 and July 5, 2012, loans were assigned to a financial institution not related to the Bank, as described below:

## Banco Fibra S.A.

### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

(All amounts in thousands of reais unless otherwise stated)

#### Breakdown of loans assigned by type of operation and nature of risks

Category	Operation	Result from assignment (1)	Amount of asset assigned ( contract rate ) (2)	Amount of obligation assumed ( contract rate ) (2)
Operations with substantial retention of risks and rewards	Payroll loans	2,667	56,445	74,647
		<u>2,667</u>	<u>56,445</u>	<u>74,647</u>

1) As required by Resolution 3,533/08, the results of the Loans Assigned with substantial retention of risks and rewards will be recognized in the results for the period over the remaining period of the operation.

2) Also, the financial asset object of the sale or transfer should remain fully recorded in assets and the amounts received in the transaction should be recorded in assets with a counterentry to a liability for the obligation assumed.

## 11. Investments - interests in subsidiaries

### a. Investments

Companies	2012					
	% holding	Equity	Profit (loss)	Equity in results	Carrying amount of investment	Non-controlling interests
Fibra Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda	99.999%	73,100	23,199	23,199	73,100	-
Fibra Projetos e Consultoria Econômica Ltda	100.000%	55,203	2,128	2,128	55,203	-
Fibra Cia. Securitizadora de Créditos Financeiros	100.000%	59,085	2,741	2,741	59,085	-
Fibra Cia. Securitizadora de Créditos Imobiliários	99.958%	14,402	345	345	14,402	(6)
Credifibra S.A. – Crédito, Financiamento e Investimento (1)	99.999%	-	(16,914)	(16,914)	-	-
Validata Meios de Pagamento Ltda	100.000%	14,637	(404)	(404)	14,637	-
<b>Total</b>		<u>216,427</u>	<u>11,095</u>	<u>11,095</u>	<u>216,427</u>	<u>(6)</u>

(1) Company merged into Banco Fibra on October 31, 2012 ( Note 3).

## Banco Fibra S.A.

### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

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#### b. Intangible assets

Changes in intangible assets during the period were as follows:

	<b>Net balance at 12/31/2011</b>	<b>Merger (3)</b>	<b>Acquisitions</b>	<b>Write-offs (4)</b>	<b>Amortization expenses</b>	<b>Net balance</b>
Other intangible assets (1)	34,978	14,182	25,527	1,425	12,476	60,786
Softw are Validata	-	14,032	198	-	484	13,746
<b>Goodwill on investments (2)</b>	<b>23,245</b>	<b>148,556</b>	<b>-</b>	<b>134,689</b>	<b>7,277</b>	<b>29,835</b>
CredFibra S/A	-	10,942	-	-	366	10,576
Paulicred	-	41,542	-	40,578	964	-
GVCREED	-	96,072	-	94,111	1,961	-
GVI Promotora de Vendas Ltda	23,245	-	-	-	3,986	19,259
<b>Total</b>	<b>81,468</b>	<b>162,738</b>	<b>25,725</b>	<b>136,114</b>	<b>20,237</b>	<b>104,367</b>

(1) Refers mainly to system development expenditures (**Note 4k**).

(2) Refers to goodwill on investments, recorded based on the expected future profitability

(3) Refers to balances from the merger of Credifibra into the Bank on October 31, 2012.

(4) Refers to full write-off of goodwill paid on acquisition of retail vehicle portfolios of Banco Paulista and Banco Sofisa, due to management's decision as a result of the discontinuance of operations. (**Note 18g**).

#### Impairment of cash-generating units including goodwill

For the purpose of complying with CPC 01 and BACEN Resolution 3,566/08, in relation to impairment testing, the Bank prepared a study regarding the economic valuation of goodwill paid on business combinations for the base date December 31, 2012.

This study was designed through the view of the cash-generating unit used in the management projections prepared by the Controller area of Banco Fibra. In general, this analysis includes the projection of margins (spread deducted from credit losses) by the cash-generating unit CDC/CP. The expenses relating to the unit were added subsequently, as well as indirect expenses, apportioned based on the portion of capital in risk allocated to the cash-generating unit. There is no evidence of impairment loss for any of the assets in the period analyzed.

#### Key assumptions used in the projections of the discounted cash flows

In conformity with CPC 01, the recoverable amount of the cash-generating unit was based on its future cash flows.

The cash flow projections were prepared using a ten-year period, segregated according to the degree of predictability, as follows:

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- The projections for 2013 reflect the budget by business unit approved by the Bank's Board of Directors.
- The projections for 2014 to 2017 consider a four-year period in which, under IFRS, it is possible to predict, within a reasonable level of assurance, efficiency and productivity gains, and were based on the following assumptions:
  - *Growth of the loan portfolio*: The estimate considered a growth equivalent to market expectations for increase in loans to individuals in the Brazilian economy, obtained from Banco Fibra's Economics Department.
  - *Spread and allowance for Impairment* Reflect the annual projections estimated by Banco Fibra's Controller area, being kept constant after 2016.
  - *Direct expenses*: Direct expenses were projected according to a study made by Banco Fibra's Controller area and reflect mainly a real growth of 2% p.a. above inflation.

Starting in 2018, the projections do not consider real growth of the portfolio and expenses. The amounts are projected through 2021 by the inflation index (IPCA) projected by Banco Fibra's Economics Department.

The present value of our projections was determined using a discount rate equivalent to the funding cost for the business area, as required by items 55 to 57 of Technical Pronouncement CPC 01 (R1). This rate comprises Banco Fibra's funding cost, plus taxes, varying according to the terms over which each line of credit is made available to clients.

## Banco Fibra S.A.

### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

(All amounts in thousands of reais unless otherwise stated)

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## 12. Foreign branch

The numbers for the foreign branch, presented in the separate financial statements of Banco Fibra S.A., are summarized below:

	<u>Balances with related parties</u>	<u>Balances with third parties</u>	<u>Total</u>
	<u>2012</u>	<u>2012</u>	<u>2012</u>
<b>Assets</b>			
Cash and banks	21	15,944	15,965
Marketable securities and derivative financial instruments	342,396	46,301	388,697
	794,919	73,545	868,464
Other assets	-	1,038	1,038
<b>Total assets</b>	<b><u>1,137,336</u></b>	<b><u>136,828</u></b>	<b><u>1,274,164</u></b>
<b>Liabilities</b>			
Demand deposits	-	4,706	4,706
Time deposits	26,566	21,682	48,248
Funds from acceptance of bills of exc	-	472,566	472,566
Borrow ings and onlendings	-	30,675	30,675
Other liabilities	-	283,716	283,716
Deferred income	-	946	946
Equity	433,307	-	433,307
<b>Total liabilities and equity</b>	<b><u>459,873</u></b>	<b><u>814,291</u></b>	<b><u>1,274,164</u></b>

Profit for the year recorded by the Cayman branch was R\$ 19,449 and the foreign exchange variation recorded in "Other operating income/expenses" amounted to R\$ 35,607.

Because this is a foreign branch, transactions with related parties involve the financial institutions of Fibra Consolidated, which are: Banco Fibra and Fibra Asset DTVM.

## Banco Fibra S.A.

### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

(All amounts in thousands of reais unless otherwise stated)

## 13. Deposits

### Maturity terms

	Banco Fibra S.A.			
	Demand and other deposits (1)	Interbank deposits	Time deposits	Total deposits
No stated maturity	-	-	-	-
Up to 30 days	103,160	129,602	306,256	539,018
From 31 to 60 days	-	31,554	82,856	114,410
From 61 to 90 days	-	18,681	230,109	248,790
From 91 to 120 days	-	381	452,674	453,055
From 121 to 180 days	-	13,865	545,362	559,227
From 181 to 360 days	-	117,359	707,090	824,449
Over 360 days	-	119,679	2,398,804	2,518,483
<b>Total at 12/31/2012</b>	<b>103,160</b>	<b>431,121</b>	<b>4,723,151</b>	<b>5,257,432</b>

	Fibra Consolidated			
	Demand and other deposits (1)	Interbank deposits	Time deposits	Total deposits
No stated maturity	-	-	-	-
Up to 30 days	102,143	129,602	187,916	419,661
From 31 to 60 days	-	31,554	82,856	114,410
From 61 to 90 days	-	18,681	230,109	248,790
From 91 to 120 days	-	381	452,674	453,055
From 121 to 180 days	-	4,462	545,362	549,824
From 181 to 360 days	-	117,359	707,090	824,449
Over 360 days	-	78,295	2,398,804	2,477,099
<b>Total at 12/31/2012</b>	<b>102,143</b>	<b>380,334</b>	<b>4,604,811</b>	<b>5,087,288</b>
<b>Total at 12/31/2011</b>	<b>178,275</b>	<b>553,785</b>	<b>5,021,170</b>	<b>5,753,230</b>

(1) Classified in current liabilities, without considering the historical average turnover.

The total portfolio of time deposits recorded at December 31, 2012 was R\$ 4,604,811 (R\$ 5,021,170 in 2011). Of this total, R\$ 363,000 refers to operations that include an early settlement clause and are recorded in current liabilities, and R\$ 2,568,692 refers to operations with Special Guarantees from the Credit Guarantee Fund (FGC).

## 14. Money market funding

These refer to securities sold in the market with repurchase commitments, backed by own or third-party government securities, according to the following terms:

## Banco Fibra S.A.

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(All amounts in thousands of reais unless otherwise stated)

	<u>Up to 30 days</u>	<u>Total in 2012</u>	<u>Total in 2011</u>
Fibra Consolidated	<u>21,779</u>	<u>21,779</u>	<u>23,837</u>

## 15. Funds from acceptance and issuance of securities - consolidated

These refer to agribusiness bonds and securities issued abroad, under a program of total issues of up to US\$ 1 billion. Agribusiness bonds are indexed to the Interbank Deposit Certificate (CDI) at rates ranging from 50% to 98% of the CDI and Financial Bills (LF) ranging from 100 to 112% of the LF rate. For issuance of securities abroad, BANCO FIBRA, through its Grand Cayman branch, issued three series in dollars, with rates from 5.875% to 8% p.a., two series in reais with rates of 90.7% of CDI + 1.625% and 90% of CDI + 1.50% p.a., as follows:

### a. Agribusiness bonds

	<u>Up to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 120 days</u>	<u>121 to 180 days</u>	<u>181 to 360 days</u>	<u>361 to 1800 days</u>	<u>Total in 2012</u>	<u>Total in 2011</u>
Agribusiness bonds (1)	127,244	58,672	19,050	17,252	10,994	240	-	233,452	429,247
Financial bills issued	-	-	-	-	-	-	1,115,048	1,115,048	-
<b>Total</b>	<b>127,244</b>	<b>58,672</b>	<b>19,050</b>	<b>17,252</b>	<b>10,994</b>	<b>240</b>	<b>1,115,048</b>	<b>1,348,500</b>	<b>429,247</b>

(1) Agribusiness bonds are backed by the Bank's assets.

### b. Securities issued abroad

#### Fibra Consolidated

	<u>Up to 30 days</u>	<u>91 to 120 days</u>	<u>121 to 180 days</u>	<u>Over 360 days</u>	<u>Total in 2012</u>	<u>Total in 2011</u>
International Finance Corporation						
IFC -Series in R\$	2,137	55,863	-	-	58,000	78,392
Other - Series in US\$	-	397,523	3,823	487,009	888,355	810,186
<b>Total</b>	<b>2,137</b>	<b>453,386</b>	<b>3,823</b>	<b>487,009</b>	<b>946,355</b>	<b>888,578</b>

## 16. Foreign borrowings and local onlendings

### a. Foreign borrowings

These comprise funds in foreign currency on which financial charges are levied at Libor plus interest ranging from 0.30% to 4.25% p.a. or fixed interest from 4.05% to 7.0% p.a., according to the following terms:



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#### Fibra Consolidated

	Up to 30 days	91 to 120 days	121 to 180 days	181 to 360 days	Over 360 days	Total in 2012	Total in 2011
International Finance Corporation - IFC	-	-	-	-	21,416	21,416	260,208
International banks	118,338	201,765	148,470	77,228	52,801	598,602	698,060
<b>Total</b>	<b>118,338</b>	<b>201,765</b>	<b>148,470</b>	<b>77,228</b>	<b>74,217</b>	<b>620,018</b>	<b>958,268</b>

#### b. Local onlendings

These are represented by funds transferred by the National Bank for Economic and Social Development (BNDES), mainly adjusted by the Long-term Interest rate (TJLP) plus interest rates ranging from 6% to 10% p.a., or fixed interest rates of 1.48% to 9.80%, according to the following terms:

	Up to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total in 2012	Total in 2011
Banco Fibra S.A and Fibra Consolidated	34,296	70,962	46,059	105,743	113,628	370,688	579,664

## 17. Foreign exchange portfolio

	Banco Fibra S.A. and Fibra Consolidated 2012		
	Interbank	Clients	Total
Exchange purchases pending settlement	-	429,441	429,441
Rights on exchange sales	3,710	26,973	30,683
(-) Advances in local currency	-	(26,878)	(26,878)
Income receivable	-	16,019	16,019
<b>Assets</b>	<b>3,710</b>	<b>445,555</b>	<b>449,265</b>
Exchange sales pending settlement	30,410	-	30,410
Liabilities for exchange purchases	-	410,657	410,657
(-) Advances against Exchange Contracts	-	(407,526)	(407,526)
<b>Liabilities</b>	<b>30,410</b>	<b>3,131</b>	<b>33,541</b>

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### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

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	Banco Fibra S.A. and Fibra Consolidated		
	2011		
	Interbank	Clients	Total
Exchange purchases pending settlement	-	757,059	757,059
Rights on exchange sales	158,232	32,009	190,241
(-) Advances in local currency	-	(31,881)	(31,881)
Income receivable	-	22,048	22,048
<b>Assets</b>	<b>158,232</b>	<b>779,235</b>	<b>937,467</b>
Liabilities for exchange purchases	-	695,330	695,330
Exchange sales pending settlement	190,964	-	190,964
(-) Advances against Exchange Contracts	-	(561,937)	(561,937)
<b>Liabilities</b>	<b>190,964</b>	<b>133,393</b>	<b>324,357</b>

## 18. Breakdown of other accounts

### a. Current assets and long-term receivables - other sundry receivables

Banco Fibra	2012	
Tax assets (Note 19b)	552,828	
Escrow deposits	213,265	
Securities and loans receivable	76,601	
Taxes recoverable	60,266	
Other	48,249	
<b>Total</b>	<b>951,209</b>	

	2012	2011
<b>Fibra Consolidated</b>		
Tax assets (Note 19b)	601,456	440,660
Escrow deposits	269,575	107,215
Securities and loans receivable	78,703	70,431
Taxes recoverable	66,139	101,957
Real estate-backed receivables	4,617	7,292
Amounts receivable - assignment	32,493	48,667
Other	20,265	57,421
<b>Total</b>	<b>1,073,248</b>	<b>833,643</b>

### b. Prepaid expenses

Prepaid expenses mainly refer to commissions paid to service providers resulting from the prospecting of retail operations under contract. In the case of portfolio assignment, the corresponding commission expenses are written off against results. These expenses are allocated to the statement of income according to the terms of the contracts, as follows:

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**Banco Fibra**

	<u>2012</u>
Commissions on retail operations	250,246
Placement of securities abroad	1,680
Other	2,732
<b>Total</b>	<b><u>254,658</u></b>

**Fibra Consolidated**

	<u>2012</u>	<u>2011</u>
Commissions on retail operations	250,246	181,010
Placement of securities abroad	1,680	5,797
Other	3,037	5,180
<b>Total</b>	<b><u>254,963</u></b>	<b><u>191,987</u></b>

**c. Current liabilities - interbank accounts - interbank onlendings**

These refer to the lines supported by BACEN Resolution 3,844/10, transferred by Fibra Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda. to Banco Fibra S.A. at normal market rates and used to back foreign currency onlendings in the amount of R\$ 360,920 at rates ranging from 0.85% to 9.00% p.a.

**d. Current and long-term liabilities - other liabilities - sundry**

<b>Bank</b>	<u>2012</u>
Payroll loans - assignment	63,561
Provision for amounts payable (1)	55,299
Amounts payable – credit card	39,228
Provisions for contingent liabilities	33,712
Commissions to be passed on - retail operations	25,034
Allowance for losses – assigned credits	1,332
Other	6,313
<b>Total</b>	<b><u>224,478</u></b>

(1) Refers mainly to payroll charges

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**Fibra Consolidated**

	<u>2012</u>	<u>2011</u>
Payroll loans - assignment	66,798	6,220
Provision for amounts payable (1)	57,536	61,153
Provisions for contingent liabilities	41,147	36,711
Amounts payable – credit card	39,228	37,613
Commissions to be passed on - retail operations	25,034	1,922
Operations pending settlement CDC	4,634	10,856
Allowance for losses – assigned credits	1,332	6,222
Certificates of Real Estate Receivables (CRI)	47	5,828
Other	2,903	12,447
<b>Total</b>	<u><b>238,659</b></u>	<u><b>178,972</b></u>

**e. Other administrative expenses**

The line item "Other administrative expenses" in the statement of income refers to:

<b>Bank</b>	<u><b>2012</b></u>
Amortization expenses	14,330
Specialized technical service expenses	31,959
Communication expenses	17,209
Financial system service expenses	26,431
Data processing expenses	16,938
Fines	4,309
Outsourced service expenses	4,423
Rental expenses	6,129
Travel expenses	1,903
Depreciation expenses	2,269
Other administrative expenses	11,188
<b>Total</b>	<u><b>137,088</b></u>

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**Fibra Consolidated**

	<b>2012</b>	<b>2011</b>
Specialized technical service expenses	42,217	34,397
Communication expenses	39,306	34,381
Financial system service expenses	27,573	20,532
Data processing expenses	21,980	27,139
Amortization expenses	20,972	14,585
Outsourced service expenses	16,173	14,057
Rental expenses	8,965	8,808
Depreciation expenses	4,019	3,983
Travel expenses	2,937	4,042
Publicity and advertising expenses	2,631	1,523
Transportation expenses	2,108	1,236
Asset maintenance and conservation expenses	2,136	1,113
Other	24,234	17,926
<b>Total</b>	<b>215,251</b>	<b>183,722</b>

**f. Other operating income**

The line item "Other operating income" in the statement of income refers to:

**Fibra Consolidated**

	<b>2012</b>
Exchange variation on investment in Cayman	34,027
Reversal of provision	17,511
Income from monetary restatement	10,561
Labor contingencies	1,771
Reversal of tax provisions	2,454
Interest on credit notes receivable	571
Other	1,575
<b>Total</b>	<b>68,467</b>

**Fibra Consolidated**

	<b>2012</b>	<b>2011</b>
Exchange variation on investment in Cayman	33,999	41,108
Reversal of provision	18,315	-
Monetary restatement of taxes	14,081	14,918
Monetary restatement on assignment guarantee	5,796	6,475
Amnesty Law 11,941/09 - Federal Revenue Secreta	5,599	5,503
Revenues from credits assigned	-	1,581
Interest on credit notes receivable	1,493	3,982
Labor contingencies	1,807	2,869
Other	4,732	8,038
<b>Total</b>	<b>85,822</b>	<b>84,474</b>

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**g. Other operating expenses**

The line item "Other operating expenses" in the statement of income refers to:

**Bank**

	<u>2012</u>
Amortization of goodwill <b>(Note 11)</b>	141,968
Reversal of operating provisions	6,693
Amnesty Law 11,941/09 - Federal Revenue S	12,629
Provision for charges and IOF on debts	4,088
Expenses on liabilities for operations linked to	4,079
Payment of indemnifications – civil lawsuits	2,793
Provision for civil contingencies	2,738
Surety expenses	1,908
Procedural costs	974
Borrower insurance	1,874
Other	2,767
<b>Total</b>	<u><b>182,511</b></u>

**Fibra Consolidated**

	<u>2012</u>	<u>2011</u>
Amortization of goodwill <b>(Note 11)</b>	156,429	24,105
Payment of indemnifications – civil lawsuits	5,435	14,607
Expenses on monetary restatement	-	14,589
Provision for civil contingencies	4,054	5,854
Provision - CDC	-	5,500
Provision for tax charges	5,330	-
Mapfre Operating Agreement	6,740	-
Losses on tax lawsuits	-	4,691
Amnesty Law 11,941/09 - Federal Revenue Secretariat	-	4,073
Borrower insurance	1,881	3,561
Interest on assignment of payroll loans	4,079	-
Asset repossession expenses	-	2,493
Surety expenses	2,013	1,812
Other	9,923	6,933
<b>Total</b>	<u><b>195,884</b></u>	<u><b>88,218</b></u>

**h. Non-operating income (expenses)**

This item totals (R\$ 808) in Banco Fibra S.A. and (R\$ 9,949) ((R\$ 2,146) in 2011) in Fibra Consolidated and mainly refers to the gains and losses on the sale of investments and assets not for own use in Banco Fibra S.A..

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**19. Taxes**

**a) Breakdown of expenses with taxes and contributions**

I – Income tax and social contribution (CSLL) due on operations for the period are as follows:

	<u>2012</u>
<b>Loss before taxation and profit sharing</b>	<b><u>(254,762)</u></b>
Charges (income tax and social contribution) at standard rates (Note 4I)	101,904
<b>Effect of additions and deductions in the calculation of taxes:</b>	<b><u>14,930</u></b>
Tax credits not recognized in the period	-
Profit abroad	(11,760)
Non-deductible permanent expenses	(8,575)
Prior year adjustments ( <b>Note 2</b> )	-
Investments in subsidiaries	25,827
Exchange variation on investment abroad	-
Income Tax Withheld at Source (IRRF) - abroad	10,741
Other	(1,303)
CSLL surcharge 6%	-
<b>Total income tax and social contribution for the year</b>	<b><u>116,834</u></b>

II – Tax expenses mainly comprise Social Integration Program (PIS), Social Contribution on Revenues (COFINS) and Services Tax (ISS).

**b) Tax credits**

I - At December 31, 2012 and 2011, the Bank had income tax and social contribution credits, calculated according to the prevailing rates, as shown below. These credits are recorded in "Other receivables - sundry" considering the estimates of their realization in the light of forecasts of taxable income based on a technical study.

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	Banco Fibra S.A.				Balance at 12/31/2012
	Balance at 12/31/2011	Merger	Increase	(Realization)	
<b>Total tax credits from temporary differences</b>	<b>247,936</b>	<b>140,965</b>	<b>89,617</b>	<b>(38,960)</b>	<b>439,558</b>
Allowance for loan losses	167,475	124,393	9,484	(23,942)	277,410
Provision for profit sharing	8,458	1,033	7,839	(7,729)	9,601
Provision for labor contingencies	3,294	764	882	(708)	4,232
Provision for Pis and Cofins contingencies	58,128	11,633	12,544	-	82,305
Provision for contingencies	7,488	2,029	846	(582)	9,781
Provision for contingencies			53,875		53,875
Social contribution - IN 633/06 ( Futures )	-	-	482	(482)	-
Provision for civil contingency fees					-
Allowance for loan loss contingencies - loans assigned					-
Provision for devaluation of assets not of own use	1,534	-	184	(1,255)	463
Provision - Other	1,559	1,113	531	(1,312)	1,891
Positive/negative adjustment to market value	-		703	(703)	-
Profit/loss abroad - Deferral	-		2,247	(2,247)	-
<b>Income tax and social contribution losses</b>	<b>51,777</b>		<b>68,258</b>	<b>(7,107)</b>	<b>112,928</b>
					-
<b>Social contribution - MP 2,158-35 of 8/24/2001</b>	<b>1,436</b>		<b>73</b>	<b>(1,167)</b>	<b>342</b>
<b>Total tax credits</b>	<b>301,149</b>	<b>140,965</b>	<b>157,948</b>	<b>(47,234)</b>	<b>552,828</b>
<b>Deferred tax liabilities</b>	<b>(5,844)</b>		<b>(34,144)</b>	<b>22,840</b>	<b>(17,148)</b>
<b>Provision - other</b>	<b>-</b>		<b>(1,628)</b>	<b>6,334</b>	<b>4,706</b>
<b>Net tax credits</b>	<b>295,305</b>	<b>140,965</b>	<b>122,176</b>	<b>(18,060)</b>	<b>540,386</b>

	Fibra Consolidated			Balance at 12/31/2012
	Balance at 12/31/2011	Increase	(Realization)	
<b>Total tax credits from temporary differences</b>	<b>370,632</b>	<b>132,568</b>	<b>(29,190)</b>	<b>474,010</b>
Allowance for loan losses	250,049	43,023	(9,809)	283,263
Provision for labor contingencies	4,207	754	(658)	4,303
Provision for contingencies	78,727	26,161	(598)	104,290
Goodwill on investments	-	53,875	-	53,875
Provision for devaluation of assets not of own use	1,600	458	(1,279)	779
Provision - other	17,968	4,858	(9,459)	13,367
Profit/loss abroad - Deferral	1	2,247	(2,248)	-
Mark-to-market adjustment	18,080	1,192	(5,139)	14,133
<b>Income tax and social contribution losses</b>	<b>68,592</b>	<b>70,570</b>	<b>(12,058)</b>	<b>127,104</b>
<b>Social contribution - MP 2,158-35 of 8/24/2001</b>	<b>1,436</b>	<b>73</b>	<b>(1,167)</b>	<b>342</b>
<b>Total tax credits</b>	<b>440,660</b>	<b>203,211</b>	<b>(42,415)</b>	<b>601,456</b>
<b>Deferred tax liabilities</b>	<b>(5,865)</b>	<b>(34,123)</b>	<b>22,840</b>	<b>(17,148)</b>
<b>Provision - other</b>	<b>-</b>	<b>(1,628)</b>	<b>6,334</b>	<b>4,706</b>
<b>Net tax credits</b>	<b>434,795</b>	<b>167,460</b>	<b>(13,241)</b>	<b>589,014</b>



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	Fibra Consolidated			Balance at 12/31/2011
	Balance at 12/31/2010	Increase	(Realization)	
<b>Total tax credits from temporary differences</b>	<b>265,935</b>	<b>133,330</b>	<b>(28,633)</b>	<b>370,632</b>
Allowance for loan losses	152,040	98,009	-	250,049
Provision for profit sharing	3,693	10,356	-	14,049
Provision for labor contingencies	4,234	-	(27)	4,207
Provision for contingencies	59,471	19,256	-	78,727
Provision for impairment of securities and investments	16,269	1,813	-	18,082
Provision for devaluation of assets not of own use	1,637	-	(37)	1,600
Other	22	3,896	-	3,918
Prior year adjustments (Note 2)	28,569	-	(28,569)	-
<b>Income tax and social contribution losses</b>	<b>74,486</b>	<b>-</b>	<b>(5,894)</b>	<b>68,592</b>
<b>Social contribution - MP 2,158-35 of 8/24/2001</b>	<b>3,190</b>	<b>-</b>	<b>(1,754)</b>	<b>1,436</b>
<b>Total tax credits</b>	<b>343,611</b>	<b>133,330</b>	<b>(36,281)</b>	<b>440,660</b>
<b>Deferred tax liabilities</b>	<b>(54,724)</b>	<b>48,859</b>	<b>-</b>	<b>(5,865)</b>
<b>Deferred income tax - equity</b>	<b>3,325</b>	<b>11,267</b>	<b>-</b>	<b>14,592</b>
<b>Net tax credits</b>	<b>292,212</b>	<b>193,456</b>	<b>(36,281)</b>	<b>449,387</b>

II – The annual expectation of the realization of the tax credits on temporary differences, income tax and social contribution losses and their respective present values are presented below. For the calculation of the present value of the tax credits, the funding cost was based on the SELIC rate projected year by year for the next 10 years, applied to the expected nominal realizable amounts, deducting the income tax and social contribution effects at the rates in force on the balance sheet date. This expectation resulted from a technical study, which considered past realization and future profitability forecasts based on: (i) basic assumptions consistent with the Bank's strategic plans; (ii) projected results; (iii) growth of loan and spread portfolios in line with market expectations; (iv) loan losses projected as an effect of the past behavior seen in the business units; and (v) estimate of the increase in operating costs based on projected inflation and on the operating needs required for the projected increase in results.

Realization year	Realization of tax credit	
	Banco Fibra S.A.	Fibra Consolidated
2013	17,457	22,723
2014	29,473	33,927
2015	57,704	62,388
2016	122,594	130,075
2017	90,292	96,551
2018	116,423	122,875
2019	105,577	110,578
2020	8,153	11,452
2021	2,578	5,476
2022	2,577	5,411
<b>Total</b>	<b>552,828</b>	<b>601,456</b>
<b>Present value</b>	<b>393,713</b>	<b>331,000</b>

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## **20. Contingent assets and liabilities and legal obligations**

BANCO FIBRA and its subsidiaries are parties to lawsuits and administrative proceedings arising during the normal course of their operations, which involve liabilities of civil, labor, tax and social security nature.

### **a. Contingent assets**

There are no contingent assets recorded in the books. However, there are lawsuits with remote possibility of success, of which two are worth pointing out:

- PIS: Writ of mandamus 2006.61.00.014234-0, filed in June 2006, with the objective of, among others, offsetting the amounts improperly paid since June 2001, according to article 74 of Law 9,430/96, with the wording given by Law 10,637/2002, totaling R\$ 4,454, already including the SELIC rate, as determined by Law 9,250/95;

- COFINS: Writ of mandamus 2006.61.00.014235-1, filed in June 2006, with the objective of, among others, offsetting the amounts improperly paid since June 2001, according to article 74 of Law 9,430/96, with the wording given by Law 10,637/2002, totaling R\$ 23,743, already including the SELIC rate, as determined by Law 9,250/95.

### **b. Liabilities of labor and civil nature**

BANCO FIBRA records provisions at amounts which are considered sufficient based on the history of losses in the past 2 years and previous judicial decisions.

The computation takes into account all civil lawsuits filed against the Bank, in which there is the actual probability of a cash disbursement, such as suits for damages, actions for review and recovery of undue payments and collection suits, among others. At December 31, 2012, the provision for labor contingencies amounted to R\$ 10,757 (R\$ 10,517 in 2011) in Fibra Consolidated and the provision for civil lawsuits at December 31, 2012 amounted to R\$ 30,451 (R\$ 26,195 in 2011) in Fibra Consolidated, both recorded under "Other liabilities - sundry".

The assessment of labor suits is based on data from lawsuits that received final and unappealable decisions in the last 3 years. The amounts are determined taking into consideration the average indemnity payment per claim, the number of outstanding proceedings and the percentage of success in the lawsuits, and are updated in the period.

### **c. Legal obligations - tax and social security**

BANCO FIBRA and its subsidiaries filed a writ of mandamus to ensure their unquestionable and clear right to pay PIS and COFINS based only on revenues from the provision of services, under Law 9,718/98 (expanded basis of calculation), for the base period of June 2006 onwards, as well as the right to offset amounts improperly paid for this matter since June 2001, pursuant to article 74 of Law 9,430/96, with the wording given by Law 10,637/2002, indexed by the SELIC rate, as determined by Law 9,250/95.

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As a result of the decision of December 10, 2010, issued in the records of the Restraining Order, which attributed effect to the appeal to the Supreme Court, there was no need to record PIS judicial deposits. As regards COFINS, in April 2012, the Bank recorded judicial deposits of R\$ 168,800, as established in paragraph 2, of article 63 of Law 9,430/96, after the publication of the decision of the Federal Regional Court of the 3rd Region, dated March 2, 2012.

The external lawyers working on this process understand that the likelihood of loss is probable.

Tax obligation classified as probable loss fully provided in the amount of R\$ 226,727, recorded under "Other liabilities – tax and social security".

**d. Contingent liabilities classified as possible losses**

The contingent liabilities classified as possible losses are monitored by the Bank and are based on reports issued by its legal advisors in relation to each one of the legal measures and administrative proceedings. Therefore, according to prevailing regulations, the contingencies classified as possible losses have not been recognized in the accounting records and mainly refer to the following matters: a) R\$ 37,751 from an administrative proceeding related to the offset of the negative income tax balance determined in calendar year 2005 (IRRF - Cayman); b) R\$ 29,079 from tax assessment notices issued by the Federal Revenue related to income tax and social contribution, due to a gain on the return of equity of an exempt entity in calendar year 2007; c) R\$ 17,735 from tax assessment notices issued by municipalities, charging service tax on amounts recorded in various accounts, levied on income from services rendered; and d) income tax on variable income in the amount of R\$ 10,598.

**e. Changes in the provisions for contingent liabilities**

**Fibra Consolidated**

	12/31/2011		12/31/2012
Civil and labor	Opening balance	Increase	Closing balance
Civil lawsuits	26,195	4,256	30,451
Labor lawsuits	10,517	240	10,757
<b>Total</b>	<b>36,712</b>	<b>4,496</b>	<b>41,208</b>

Fibra Consolidated					
	12/31/2010		Changes		12/31/2011
Civil and labor	Opening balance	Increase	(Realization)	(Payment)	Closing balance
Civil lawsuits	25,715	8,923	(8,377)	(66)	26,195
Labor lawsuits	10,750	3,458	(3,691)	-	10,517
<b>Total</b>	<b>36,465</b>	<b>12,381</b>	<b>(12,068)</b>	<b>(66)</b>	<b>36,712</b>

**f. Program for lump sum payment or installment payment of federal taxes - Law 11,941/09**

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BANCO FIBRA and its subsidiaries enrolled in the program for installment payment and lump sum payment of tax debts, under an amnesty for debts managed by the Federal Revenue Secretariat and the General Counsel to the National Treasury (PGFN), introduced by Law 11,941/09. Under this program, it is possible to pay in a lump sum or in installments the debts overdue up to June 30, 2011, consolidated by the debtor company, with suspended payment or not, taken on a stand-alone basis even when a tax collection action has already been filed, or which have been enrolled in a previous installment payment program, even if canceled due to lack of payment.

At June 30, 2011, a cash payment was made to settle all consolidated amounts, totaling R\$ 13,244, except for those linked to judicial deposits, which remain pending until the deposits are mapped to the writ of mandamus, so that the overdue amounts can be settled and any remaining balances can be refunded to the Bank. At December 31, 2012, the provision was R\$ 24,729.

The main proceedings included in this program are:

- i) Social Contribution Isonomy** - claiming the suspension of the social contribution requirement applicable to financial institutions at rates higher than those applicable to other entities in view of the disregard of the constitutional principle of isonomy.

## 21. Subordinated debts eligible as capital

At December 31, 2012, total issues of subordinated debts duly approved by BACEN amounted to R\$ 372,475 in issued securities, of which a certain amount can be computed as eligible for Regulatory Capital Tier II, as described below:

<u>Date of operation</u>	<u>Remuneration</u>	<u>2012</u>	
		<u>Balance</u>	<u>Capital Tier II</u>
3/24/2008	CDI + 1.38%	35,663	-
2/22/2010	US\$ + 7.33%	53,383	32,030
10/28/2011	US\$ + 8.0%	45,576	45,576
11/16/2009	US\$ + 8.5%	237,853	142,712
	<b>Total</b>	<b>372,475</b>	<b>220,318</b>

## 22. Equity

### a. Share capital

The Bank's capital comprises 2,624,511,189 registered common shares with no par value.

Each common share entitles its holder to 1 vote at Stockholders General Meetings.

At the Extraordinary General Meeting held on December 26, 2012, a capital increase of R\$ 150,000 was approved, from R\$ 1,164,888 to R\$ 1,314,888, through the issue of 389,216,119 registered common shares with no par value, approved by BACEN on February 8, 2013.

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At the Extraordinary General Meeting held on November 30, 2011, a capital increase of R\$ 93,377 was approved, from R\$ 966,461 to R\$ 1,059,838, through the issue of 196,005,921 registered common shares with no par value, of which R\$ 80,000 was paid up at that time, through the issue of 167,926,113 registered shares with no par value, and R\$ 13,377 paid by March 2012, approved by BACEN on April 18, 2012.

At the Extraordinary General Meeting held on December 28, 2011, a new capital increase of R\$ 105,049 was approved, from R\$ 1,059,838 to R\$ 1,164,888, through the issue of 220,506,661 registered common shares with no par value, of which R\$ 90,000 was paid up at that time, through the issue of 188,916,877 registered shares with no par value, and R\$ 15,049 paid by March 2012, as approved by BACEN on April 18, 2012.

#### ***b. Legal reserve***

Legal reserve is mandatorily recorded based on 5% of profit for the period, up to 20% of realized share capital, or 30% of share capital plus capital reserves. After this limit, allocation is no longer mandatory.

#### ***c. Dividends and interest on capital***

Stockholders are entitled to receive mandatory dividends of not less than 25% of the profit for the year, after deductions provided for in the bylaws and in accordance with the provisions of the Brazilian Corporation Law. The amount paid or credited as interest on capital according to relevant legislation can be considered as mandatory dividends distributed by the Bank for all legal purposes. Intermediary and interim dividends must at all times be credited and considered as advances on mandatory dividends.

## **23. Related-party transactions**

### ***a. Related parties***

The transactions carried out between related parties are disclosed to comply with CMN Resolution 3,750/09. These transactions are performed at market values, terms, rates and conditions prevailing on their respective dates, as described below:

**Banco Fibra S.A.**

**Notes to the financial statements**  
**Years ended December 31, 2012 and 2011 and**  
**six-month period ended December 31, 2012**

*(All amounts in thousands of reais unless otherwise stated)*

a) Related parties	Rates	Assets	Income
		liabilities	(expenses)
		2012	2012
<b>Interbank Deposits applications</b>		-	<b>142,166</b>
Credifibra S.A. - Crédito, Financiamento e Investimento		-	142,166
<b>Marketable securities</b>		<b>342,396</b>	<b>31,414</b>
Fibra Asset Management DTVM Ltda.		342,396	31,414
<b>Derivative financial instruments</b>		<b>41,150</b>	<b>(48,203)</b>
Fibra Asset Management DTVM Ltda.		41,150	(48,203)
<b>Other Liabilities</b>		<b>(11)</b>	-
Fibra Asset Management DTVM Ltda.		(11)	-
<b>Deposits</b>			
<b>Demand</b>		<b>(1,015)</b>	-
Fibra Asset Management DTVM Ltda.		(938)	-
Fibra Cia. Securitizadora de Créditos Imobiliários		(9)	-
Fibra Cia. Securitizadora de Créditos Financeiros		(7)	-
Fibra Projetos e Consultoria Econômica Ltda.		(50)	-
Validata meios de pagamento Ltda		(11)	-
<b>Time</b>		<b>(118,339)</b>	<b>(8,033)</b>
Credifibra S.A. - Crédito, Financiamento e Investimento		-	(34)
Fibra Cia. Securitizadora de Créditos Imobiliários	107.00% to 114.00% of CDI	(12,294)	(1,042)
Fibra Cia. Securitizadora de Créditos Financeiros	100.00% to 115.00% of CDI	(53,072)	(3,449)
Fibra Projetos e Consultoria Econômica Ltda.	100.00% to 112.00% of CDI	(52,795)	(3,344)
Validata meios de pagamento Ltda	112.00% of CDI	(178)	(164)

## Banco Fibra S.A.

### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

(All amounts in thousands of reais unless otherwise stated)

		<u>Assets</u>	<u>Income</u>
		<u>liabilities</u>	<u>(expenses)</u>
		<u>2012</u>	<u>2012</u>
<b>Deposits</b>			
<b>Demand and time</b>			
<b>Associates of the controlling group</b>			
	<b>Rates</b>	<b>(185,420)</b>	<b>(63,402)</b>
Asaki Participações Ltda	102.00% of CDI	(2,830)	(1,107)
Avco Polímeros do Brasil Ltda		(5,449)	(38)
CFL Participações S/A	116.50% of CDI	(2,097)	(10,637)
Cia de Gás do Ceara - CEGAS	112.00% of CDI	(4,643)	(544)
Cia Sul Riograndense de Imóveis	112.00% to 115.00% of CDI	(106)	(1,013)
CIPLA Serviços e Empreendimentos Imobiliários LTDA	102.00% to 107.50% of CDI	(3,192)	(119)
COTESUL Participações LTDA	102.00% of CDI	(502)	(168)
Elizabeth Textil S.A	112.00% of CDI	(237)	(850)
Fazenda Alvorada de Bragança Agropastoril Ltda		(21)	-
Fazenda Santa Otília Agropecuária LTDA		(21)	(1,083)
Fibra Empreendimentos Imobiliários S/A		(573)	(16)
Fibra Experts Emp. Imobiliários LTDA		(5)	(3,079)
Fibracel Têxtil Ltda		-	(69)
Finobrasa Agroindustrial S/A		-	(98)
Pinhal Administração e Participações LTDA		(3)	(396)
RB2 S/A	102.00% to 105.50% of CDI	(3,175)	(1,868)
Rio Iaco Participações S/A	107.50% of CDI	(1,819)	(201)
Rio Il Park Empreendimentos Imobiliários S/A	102.00% of CDI	(83)	(216)
Rio Purus Participações S/A	102.00% of CDI	(20)	(14,665)
Taquari Cia Sec.de Créditos Financeiros		(337)	(762)
Taquari Participações S/A	55.00% of CDI	(3,078)	(267)
Tutóia Empreendimentos imobiliários S/A	102.00% of CDI	(637)	(70)
Transnordestina Logística S/A		(5)	(4)
Vicunha Aços S/A	102.00% of CDI	(193)	(1,035)
Vicunha Participações S/A		-	(39)
Vicunha S/A	102.00% of CDI	(208)	(361)
Vicunha Siderurgia S/A	114.00% to 115.00% of CDI	(403)	(1,305)
Vicunha Steel S/A	102.00% of CDI	(1,121)	(176)
Vicunha Rayon		(6,803)	(1)
Vicunha Textil S/A	102.00% to 118.00% of CDI	(147,859)	(23,215)
<b>Controlling stockholders and key management personnel</b>			
Controlling interests - individuals and key management personnel	95.00% to 123.00% of CDI	<b>(195,948)</b>	<b>(41,130)</b>
<b>Interbank Deposits applications</b>			
Fibra Asset Management DTVM Ltda.	100.00% of CDI	<b>(50,786)</b>	<b>(9,256)</b>
Credifibra S.A. - Crédito, Financiamento e Investimento		-	(746)
<b>Other interbank onlendings</b>			
Fibra Asset Management DTVM Ltda.	100.00% of CDI	<b>(360,920)</b>	<b>(43,910)</b>
<b>Interbank borrowings and onlendings</b>			
IFC		<b>(21,416)</b>	<b>(3,219)</b>
<b>Liabilities for securities abroad</b>			
IFC		<b>(58,000)</b>	<b>(6,556)</b>

**Banco Fibra S.A.**

**Notes to the financial statements**  
**Years ended December 31, 2012 and 2011 and**  
**six-month period ended December 31, 2012**

*(All amounts in thousands of reais unless otherwise stated)*

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**b. Compensation of key management personnel**

On November 25, 2010, CMN Resolution 3,921/12 was issued. The main objective of this Resolution is to regulate and formalize the policies of compensation of the directors of financial institutions, ensuring compliance with the risk management policy, in order to avoid behavior considered not in line with the security and prudence levels desired.

In general, the Resolution establishes guidelines to design variable compensation programs, and also the responsibilities in the approval, operation and disclosure of the compensation policies. The role of the Board of Directors in this process and the creation of a compensation committee should be emphasized.

Because of these new rules, the Bank approved, at the Extraordinary General Meeting of March 15, 2012, the preparation of a specific chapter - Compensation Committee - in its bylaws. On the same date, the Compensation Committee became effective.

In line with the aforementioned Resolution, as regards the compensation of the Bank's directors, the impacts of at least three dimensions are considered: (i) individual performance; (ii) area performance; and (iii) Bank performance. For the credit and risk management directors, dimension (iii) bank performance will not be considered, with the objective of minimizing possible conflicts of interest.

The directors will receive the variable compensation portion related to each year in 4 installments, 50% of which in the first year and the remaining amount deferred as from the second year, in the proportion of 1/3 each year, observing the rules established by the Brazilian Central Bank.

The goals of all the directors will be approved by the compensation committee – which will also be responsible for assessing their compliance - and documented, and will remain available to the Brazilian Central Bank.

The directors of BANCO FIBRA are compensated through Directors' fees or salaries, when they are registered under the Brazilian Labor Code (CLT), which are presented in the "Personnel expenses" account.



## Banco Fibra S.A.

### Notes to the financial statements Years ended December 31, 2012 and 2011 and six-month period ended December 31, 2012

(All amounts in thousands of reais unless otherwise stated)

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#### b) Key management compensation

The breakdown of the fees paid to managers in the period is as follows:

	<u>2012</u>	<u>2011</u>
<b>Fixed compensation</b>		
Managers <sup>(1)</sup>	11,370	7,359
<b>Variable compensation</b>		
Managers <sup>(1)</sup>	4,383	4,762
<b>Total</b>	<u><u>15,753</u></u>	<u><u>12,121</u></u>

(1) Banco Fibra's statutory officers and directors.

Includes hiring amounts and proportional amount related to termination of managers

## 24. Fund management

Fibra Consolidated is responsible for the management of several funds and investment clubs, whose net assets, at December 31, 2012, totaled R\$ 553,702 (R\$ 552,155 in 2011), presenting a result of R\$ 5.

## 25. Operational limits

### **Basel Agreement**

Financial institutions must maintain a minimum equity of 11% of their consolidated risk-weighted assets plus percentages on the swap credit risk over their exposure in gold and other assets and liabilities indexed to foreign exchange rates and interest rates, according to the regulations and instructions issued by BACEN. At December 31, 2012 and 2011, BANCO FIBRA was in compliance with this operational limit, as shown below:

	<u>2012</u>	<u>2011</u>
Reference Equity (PR)	1,245,740	1,236,072
Required Reference Equity (PRE)	(1,035,216)	(1,002,282)
Amount corresponding to RBAN <sup>(1)</sup>	(34,681)	(30,074)
<b>Margin</b>	<u><u>175,843</u></u>	<u><u>203,716</u></u>

(1) Market risk of the banking portfolio interest rates.

At December 31, 2012, the Basel Index, in accordance with the applicable rules, was 13.2% (13.6% in 2011).

**Banco Fibra S.A.**

**Notes to the financial statements**  
**Years ended December 31, 2012 and 2011 and**  
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*(All amounts in thousands of reais unless otherwise stated)*

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**26. Supplementary information**

**a. Guarantees and sureties**

The Bank's responsibility for guarantees and sureties granted to third parties at December 31 is as follows:

	<b>2012</b>
Sureties - financial institutions	222,365
Sureties - individuals and non-financial legal entities	190,779
Other	31,059
<b>Total</b>	<b>444,203</b>

**b. Employee benefits**

BANCO FIBRA offers to its employees the following benefits: life insurance, health insurance, food voucher, meal ticket and transportation voucher. None of these benefits is considered as an integral part of the salary.

BANCO FIBRA has no post-employment, termination or other long-term benefits, or share-based compensation plans.

BANCO FIBRA did not contribute to private or supplementary pension plans in the years ended December 31, 2012 and 2011.

**c. Profit sharing - employees**

BANCO FIBRA has its own model of profit sharing, with criteria and parameters established in a specific plan.

**d. Retention program**

Considering the scenario of good opportunities for the financial market in the coming years, with maintenance of the internal economic stability and growth and focusing on human capital retention, in 2010, the Bank's Executive Board decided to adopt a retention bonus compensation plan, for a period not less than 24 months and formalized through a contract between the employer and the employee. The program established payments in two installments, the first one up to December 31, 2010 and the second one up to February 29, 2012. Its deferral ended on December 31, 2012.

**e. Insurance contracts**

BANCO FIBRA has insurance for specific risks with basic coverage for fire, lightning, explosion or implosion - building, machinery, furniture and fixtures, electrical damage, electronic equipment, business interruption as a result of the basic coverage (for the period of 6 months), loss or rental payment (period of 6 months), expenses with reconstruction of records and documents and civil liability for business establishments. The maximum amount of coverage is R\$ 50,403 and the coverage period lasts up to March 2013.

**Banco Fibra S.A.**

**Notes to the financial statements**  
**Years ended December 31, 2012 and 2011 and**  
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*(All amounts in thousands of reais unless otherwise stated)*

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**27. Subsequent event**

On January 3, 2013, a decision was made to reduce the capital of the Cayman branch by R\$ 102,025.

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