INFORMATION MEMORANDUM

Banco Santander (Brasil) S.A.

(a company incorporated under the laws of the Federative Republic of Brazil), acting through its principal office in Brazil or acting through its Grand Cayman Branch

U.S.$3,500,000,000 Global Medium-Term Note Program

Banco Santander (Brasil) S.A., acting through its principal office in Brazil or through its Grand Cayman Branch ("Santander", "we" or the "Issuer"), may from time to time issue medium-term notes (the "Notes") pursuant to the Global Medium-Term Note Program described herein (the "Program") denominated in U.S. dollars or such other currencies or currency units as may be set forth in final terms (each, a "Final Terms") to this information memorandum subject to all legal and regulatory requirements applicable to issuances in particular currencies. The Notes will have maturities of seven calendar days or more from their date of issue as set forth in the applicable Final Terms. The maximum nominal amount of all Notes from time to time outstanding will not exceed U.S.$3,500,000,000 (or the equivalent, calculated as described herein, in other currencies or currency units), subject to any duly authorized increase. All references herein to the Program should be read to take into account such increases. The Notes may bear interest on a fixed or floating rate basis, be issued on a fully discounted basis and not bear interest, or be indexed. The Notes may be issued in bearer or registered form. The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

All Notes denominated in the same currency, having the same maturity date, bearing interest, if any, on the same basis and at the same rate and the terms of which are otherwise identical, except for the issue date, interest commencement date and/or the issue price and, in respect of a series of Currency Constraint Notes (as defined herein) and related Exchanged Notes (as defined herein), the Specified Principal Payment Currency (as defined herein) and Specified Interest Payment Currency (as defined herein) (if applicable) and the related payment provisions, will constitute a 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 at different issue prices but on terms otherwise identical (except in relation to interest commencement dates and matters related thereto and matters related to the Currency Constraint provisions (if applicable) described herein). The aggregate nominal amount, any interest rate or interest calculation, the issue price, and any other terms and conditions not contained herein with respect to each Series or Tranche of Notes will be established at the time of issuance and set forth in the applicable Final Terms.

The Notes may be offered by the Issuer directly or through one or more of the dealers listed below and any other dealer appointed from time to time by the Issuer (each, a "Dealer") on a continuous basis or through syndicated placements. The applicable Final Terms will specify the Dealer, Dealers or syndicate of Dealers through which the Notes of a particular Series will be offered. Notes may also be sold to a Dealer or Dealers as principal, at negotiated discounts or otherwise, and Notes may be sold to or through syndicates of financial institutions for which a Dealer will act as lead manager.

See "Risk Factors" beginning on page 22 for a discussion of certain factors to be considered in connection with an investment in the Notes.

Application has been made to admit the Program for listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. Santander may apply to, but is not obliged to, admit the Notes to be issued under the Program to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. The Final Terms applicable to a Series will specify whether or not Notes of such Series have been admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. In case the Notes are not admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market, Santander is not obliged to list the Notes on any other stock exchange.

This information memorandum constitutes a base prospectus for the purposes of listing Notes on the Luxembourg Stock Exchange and trading on the Euro MTF market. It should be read and construed together with any Final Terms and any supplemental information memorandum and with any documents incorporated by reference herein. Information in this information memorandum replaces and supersedes any information in the information memorandum of Santander dated April 6, 2009 and should only be used as a base for the Notes to be issued under the Program as set forth in the Final Terms, attached hereto.

WE HAVE NOT REGISTERED AND WILL NOT REGISTER THE NOTES UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). ACCORDINGLY, THE NOTES ARE BEING OFFERED AND SOLD ONLY (I) IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT AND (II) OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"). BECAUSE THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, THEY ARE SUBJECT TO CERTAIN RESTRICTIONS ON RESALES AND TRANSFERS DESCRIBED UNDER "SUBSCRIPTION AND SALE" AND "TRANSFER RESTRICTIONS."

Global Arranger

Santander Investment Limited

Dealers

Santander Investment Limited **Santander Investment Securities Inc.**

The date of this information memorandum is March 26, 2010.

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THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS AND THE NOTES MAY INCLUDE NOTES IN BEARER FORM THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE NOTES MAY NOT BE OFFERED, SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. SEE "SUBSCRIPTION AND SALE."

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY, AND NONE OF THE FOREGOING AUTHORITIES HAS PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS INFORMATION MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILIZING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION 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 STABILIZATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

NOTICE FOR NEW HAMPSHIRE RESIDENTS ONLY: 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 (THE "RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A NOTE IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE 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 NOTE OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, NOTE 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.

In this information memorandum, the terms "Santander Brasil", "Santander", the "Santander Brasil Group", the "Bank", "we", "us", "our" and "our company" mean Banco Santander (Brasil) S.A. and its consolidated subsidiaries (including, as from August 30, 2008, the entities of Banco Real), unless otherwise indicated or the context otherwise requires. References to "Banco Real" mean Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. and their respective consolidated subsidiaries, unless otherwise indicated. References to "Banespa" mean Banco do Estado de São Paulo S.A. —Banespa, one of our predecessor entities. The terms "Santander Spain" and "our parent" mean Banco Santander, S.A. References to "Santander Group" or "Grupo Santander" mean the worldwide operations of the Santander Spain conglomerate, as indirectly controlled by Santander Spain and its consolidated subsidiaries, including Santander Brasil.

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD BE AWARE THAT THE NOTES ARE NOT GUARANTEED BY, NOR DO THEY CONSTITUTE AN OBLIGATION OF, BANCO SANTANDER, S.A. OR ANY ENTITIES CONTROLLED BY IT OTHER THAN SANTANDER.

Notes offered hereby may be issued in registered form, without interest coupons ("Registered Notes"), or in bearer form, with or without interest coupons ("Bearer Notes"), as specified in the applicable Final Terms. Notes initially sold to qualified institutional buyers ("QIBs") will, unless otherwise specified, be available only in book-entry form, and will be represented by a Registered Note in the form of a restricted global note certificate (the "DTC Restricted Global Note") deposited on or about the issue date as specified in the applicable Final Terms with or on behalf of The Depository Trust Company ("DTC") and will be registered in the name of its nominee. Registered Notes sold outside the United States in reliance on Regulation S will, unless otherwise specified, be available only in book-entry form and will be represented by either (i) an unrestricted global note certificate (a "DTC Unrestricted Global Note") deposited on or about the issue date as specified in the applicable Final Terms with or on behalf of DTC for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), or (ii) an international global note certificate (an "International Global Note Certificate") deposited with a common depositary located outside the United States (a "Common Depositary") for Euroclear and Clearstream, Luxembourg. On or prior to the 40th day after the later of the commencement of the offering and the date of delivery of the Notes of each Series, beneficial interests in a DTC Unrestricted Global Note representing Notes of such Series may be held only through Euroclear or Clearstream, Luxembourg. Bearer Notes will, unless otherwise specified, only be sold outside the United States to non-U.S. persons in reliance on Regulation S and will, unless otherwise specified, initially be represented by a temporary global Note (a "Temporary Global Note") without interest coupons, deposited with or on behalf of a Common Depositary for Euroclear and Clearstream, Luxembourg. Beneficial interests in such Temporary Global Note shall be exchangeable for beneficial interests in a Permanent Global Note (as defined herein) in bearer form in an equal aggregate nominal amount, not earlier than the 40th day after the applicable closing date, upon certification of non-U.S. beneficial ownership in the form required by U.S. tax laws. See "Book-Entry; Delivery and Form—Bearer Notes."

The obligations of the Issuer in respect of the Notes are not in any way guaranteed by any government or any agency or political subdivision thereof. The Dealers make no representations or warranties, express or implied, as to the accuracy or completeness of the information contained or incorporated by reference in this information memorandum.

The Issuer has not authorized the making or provision of any representation or information regarding the Issuer or the Notes other than as contained or incorporated by reference in this information memorandum, the Trust Deed (as defined herein), the Dealer Agreement (as defined herein), the Agency Agreement (as defined herein) or any Final Terms, or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorized by the Issuer or the Dealers. Neither the delivery of this information memorandum, any supplement hereto and any Final Terms, nor any sale made hereunder shall, in any circumstance, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that the information contained herein is correct as of any date subsequent to the date as of which it is given herein. No person is or has been authorized to give any information or to make any representation not contained in or not consistent with this information memorandum or any other information supplied in connection with the Program or the Notes or any information made public by the Issuer and if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Dealers.

This information memorandum can be used only for the purposes for which it has been published. This information memorandum does not constitute an offer to sell in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction, nor does this information memorandum constitute an invitation to purchase any Notes and should not be considered as a recommendation by the Issuer or the Dealers that any recipient of this information memorandum should purchase any Notes. The distribution of this information memorandum or any part of it, including any Final Terms, and the offer and sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this information memorandum comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and on distribution of this information memorandum and other offering material relating to the Notes, see "Subscription and Sale."

We are not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any laws or regulations. You should not consider any information in this information memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

The Notes will not be offered or sold to persons in the United Kingdom, except in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom other than in the circumstances set out in section 86 of the Financial Services and Markets Act 2000, as amended (the "FSMA"). The Initial Purchaser has complied and will comply with all provisions of the FSMA, with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom. This information memorandum must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates shall be available only to relevant persons and will be engaged in only with relevant persons.

This information memorandum has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area (each, a "Relevant Member State") which has implemented European Council Directive 2003/71/EC (the "Prospectus Directive") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make any offer of Notes in that Relevant Member State may only do so (i) in circumstances in which no obligation arises for 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, in each case, in relation to such offer, or (ii) if a prospectus for such offer 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 and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by the applicable Final Terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or the relevant Final Terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Notes will not be registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or the "CVM"). Any public offering or distribution, as defined under Brazilian laws and regulations, of the Notes in Brazil is not legal without such prior registration under Law 6,385, of December 7, 1976, as amended. If a Brazilian resident acquires any Note, such Note can neither circulate in Brazil in bearer form nor be repaid in Brazil in a currency other than the Brazilian currency at the time such payment is made. The Dealers have agreed not to offer or sell Notes in Brazil except in compliance with applicable Brazilian laws or pursuant to an available exemption therefrom.

None of the Dealers or their affiliates assumes any obligation to purchase any Notes or to make a market in the Notes, and no assurances can be given that a liquid market for the Notes will exist.

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

Santander may apply to, but is not obliged to, admit the Notes to be issued under the Program to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market.

Santander, having made all reasonable inquiries, confirms that this information memorandum contains or incorporates by reference all information with regard to the Issuer and its subsidiaries and affiliates, the financial and political condition in Brazil, the banking, insurance and leasing industries in Brazil and the Notes which is material in the context of the issue of the Notes, that such information contained or incorporated by reference in this information memorandum is true and accurate in all material respects and is not misleading, that any opinions and intentions expressed in this information memorandum are honestly held and that there are no other facts the omission of which makes this information memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. Santander accepts responsibility accordingly.

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DOCUMENTS INCORPORATED BY REFERENCE

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

- the most recently published annual audited and interim unaudited condensed consolidated financial statements, from time to time, of Santander, such financial statements in each case prepared in accordance with IFRS (as defined below) and in the English language; and

- all amendments and supplements to this information memorandum prepared from time to time in accordance with the undertaking by Santander in the Dealer Agreement described below,

provided 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 information memorandum to the extent that a statement contained in any such subsequent document modifies or supersedes such earlier statement.

Santander will, at the specified office of its Listing Agent, provide, without charge, a copy of this information memorandum and a copy of any or all of the documents incorporated herein by reference, where such documents will be available free of charge to any interested person. Santander has agreed to furnish to the Luxembourg Stock Exchange all such information as required by the rules of the Luxembourg Stock Exchange in connection with the listing on the Luxembourg Stock Exchange of the Notes. Santander shall, during the continuance of the Program, prepare a supplement to this information memorandum whenever required by the rules of the Luxembourg Stock Exchange. Our financial statements are also available at our website at www.santander.com.br. None of the information on Santander's website is part of, or incorporated by reference in, this information memorandum.

WHERE YOU CAN FIND MORE INFORMATION

Santander Brasil is a reporting company subject to the informational requirements of the U.S. Securities Exchange Act of 1934, as amended (The “Exchange Act”) and, in accordance therewith, files reports and other information with the SEC. As foreign private issuer, Santander Brasil is exempt from the Exchange Act rules regarding the provision and control of proxy statements and regarding short-swing profit reporting and liability. Such reports and other information can be inspected and copied at the public references facilities of the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Santander Brasil files materials with, and furnish material to, the SEC electronically using the EDGAR System. The SEC maintains an Internet site that contains these materials at www.sec.gov. In addition, such reports, proxy statements and other information concerning Santander Brasil can be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which equity securities of Santander Brasil are listed.

FORWARD-LOOKING STATEMENTS

This information memorandum contains estimates and forward-looking statements, principally in "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Some of the matters discussed concerning our business operations and financial performance include estimates and forward-looking statements within the meaning of the Securities Act and the Exchange Act.

Our estimates and forward-looking statements are mainly based on our current expectations and estimates on projections of future events and trends, which affect or may affect our businesses and results of operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Our estimates and forward-looking statements may be influenced by the following factors, among others:

- increases in defaults by our customers and in impairment losses;
- decreases in deposits, customer loss or revenue loss;
- increases in provisions for contingent liabilities;
- our ability to sustain or improve our performance;
- changes in interest rates which may, among other effects, adversely affect margins;
- competition in the banking, financial services, credit card services, insurance, asset management and related industries;
- government regulation and tax matters;
- adverse legal or regulatory disputes or proceedings;
- credit, market and other risks of lending and investment activities;
- decreases in our level of capitalization;
- changes in market values of Brazilian securities, particularly Brazilian government securities;
- changes in regional, national and international business and economic conditions and inflation; and
- other risk factors as set forth under "Risk Factors."

The words "believe", "may", "will", "estimate", "continue", "anticipate", "intend", "expect" and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. Our future results may differ materially from those expressed in these estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this information memorandum might not occur and our future results and our performance may differ materially from those expressed in these forward-looking statements due to, inclusive, but not limited to, the factors mentioned above. Because of these uncertainties, you should not make any investment decision based on these estimates and forward-looking statements.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein 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 United States dollars. All references to the "*euro*," "*euros*" or "€" are to the common legal currency of the member states participating in the European Economic and Monetary Union. References to "CI$" are to Cayman Island dollars. See "Exchange Rates" for information regarding exchange rates for the Brazilian currency since 2004.

Solely for the convenience of the reader, we have translated certain amounts included in "Summary Financial Information," "Capitalization" and elsewhere in this information memorandum from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of Brazil, or "Central Bank," as of December 31, 2009 of R$1.7412 to U.S.$1.00 or such other dates as indicated herein (subject to rounding adjustments). 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 as of that or any other date. In addition, translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Certain figures included in this information memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Financial Statements

We maintain our books and records in *reais*. Our consolidated financial statements at and for each of the years ended December 31, 2009, 2008 and 2007 have been audited, as stated in the report appearing herein, and are included in this information memorandum. These financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, or "IFRS." In addition, our consolidated financial statements include the results of Banco Real as from August 30, 2008.

On August 29, 2008, as further described in note 26 to our annual consolidated financial statements, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. became our wholly-owned subsidiaries pursuant to a share exchange transaction (*incorporação de ações*) approved by the shareholders of Santander Brasil, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. As a result, Banco Real became our wholly-owned subsidiary. As a consequence of this share exchange transaction, one of the key factors to be considered when analyzing our financial condition and results of operations at and for the years ended December 31, 2008 and 2007 is the consolidation of the entities of Banco Real in our financial statements since August 30, 2008. The impact of the consolidation of Banco Real in the last four months of 2008 is so substantial that it makes our results of operations for 2008 not comparable to those of 2007. In order to analyze the organic developments in our business obscured by the effect of the Banco Real acquisition, management uses and we present in this information memorandum certain 2008 financial information excluding the results of Banco Real. Banco Real was our wholly-owned subsidiary during the last four months of 2008 and this presentation is intended only to subtract from our reported results for 2008 the amounts contributed by Banco Real. This information does not purport to represent what our results of operations would have been had we not acquired Banco Real. We have not adjusted our reported results for any expenses incurred in 2008 in connection with the acquisition of Banco Real or for any revenue synergies. Management believes that any such additional expense or revenue was not material.

The combined financial statements of Banco Real at and for the year ended December 31, 2007 and the income statement for period from January 1 to August 29, 2008 have been audited, as stated in the report appearing herein, and are included in this information memorandum. The unaudited combined interim financial statements of Banco Real for the period from January 1 to August 29, 2007 are included in this information memorandum for comparative purposes. These financial statements are prepared in accordance with IFRS.

We have included in this information memorandum selected financial data for the Bank which has been derived from unaudited financial statements at and for the years ended December 31, 2006 and 2005 prepared in accordance with accounting practices derived from Brazilian corporate law and standards set by the Brazilian Monetary Council and the Central Bank, or "Brazilian GAAP". The Bank was formed as a result of the reorganization of the Brazilian banking interests of the Santander Group in 2006. Prior to August 31, 2006, the Santander Group held controlling interests, directly and indirectly, in four separate entities through which it conducted its banking operations in Brazil: Banco Santander Brasil S.A., Banco Santander Meridional S.A., Banco Santander S.A. and Banco do Estado de São Paulo S.A. – Banespa. On August 4, 2006, this group of banks was reorganized into a consolidated group under the Bank. The selected financial data included in this information memorandum for the years ended December 31, 2006 and 2005 reflect the combined unaudited income statement data of the Bank, Banco Santander Brasil S.A., Banco Santander S.A. and Banco do Estado de São Paulo S.A. – Banespa for the years then ended. Selected financial data at December 31, 2006 reflect consolidated audited financial data because these banks were reporting on a consolidated basis at that date.

IFRS differs in certain significant respects from U.S. GAAP. IFRS also differs in certain significant respects from Brazilian GAAP. Note 45 to our audited financial statements for the year ended December 31, 2009 and note 45 and 46 to each of our 2008 financial statements and note 44 to the financial statements of Banco Real, respectively, included herein, contain information relating to certain differences between IFRS and Brazilian GAAP.

We prepare and will continue to prepare statutory financial statements in accordance with Brazilian GAAP. As we are required to follow Brazilian Central Bank regulations, we have not adopted in our consolidated financial statements prepared in accordance with Brazilian GAAP the accounting rules issued by the Accounting Rules Committee (*Comitê de Pronunciamentos Contábeis*), or "CPC", and approved by the CVM to the extent that such rules have not been adopted by the Brazilian Central Bank. Under CMN Resolution No. 3,786, dated September 24, 2009, as of December 31, 2010 our consolidated financial statements must be prepared in accordance with IFRS. See "Regulatory Overview—Auditing Requirements."

See "Unaudited Pro Forma Consolidated Financial Information" for financial information reflecting our consolidated financial information, to give effect to our incorporation of Banco Real as if the acquisition of Banco Real by the Santander Group and the share exchange transaction (*incorporação de ações*) described in that section had occurred as of January 1, 2008.

Market Share and Other Information

We obtained the market and competitive position data, including market forecasts, used throughout this information memorandum from internal surveys, market research, publicly available information and industry publications. We have made these statements on the basis of information from third-party sources that we believe are reliable, such as the Brazilian association of credit card companies (*Associação Brasileira de Empresas de Cartões de Crédito e Serviços*), or "ABECS;" the Brazilian association of leasing companies (*Associação Brasileira de Empresas de Leasing*), or "ABEL;" the Brazilian association of savings and mortgage financing entities (*Associação Brasileira de Crédito Imobiliário e Poupança*), or "ABECIP;" the Brazilian bank federation (*FEBRABAN — Federação Brasileira de Bancos*) or "FEBRABAN;" the Brazilian development bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or "BNDES;" the Brazilian Institute of Geography and Statistics, or the "IBGE"; the Central Bank; the Central Bank system (*Sistema do Banco Central*), or "SISBACEN," a Central Bank database; the Getulio Vargas Foundation (*FGV — Fundação Getúlio Vargas*), or "FGV;" the insurance sector regulator (*Superintendência de Seguros Privados*), or "SUSEP"; the national association of financial and capital markets entities (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais)*, or "ANBIMA;" and the national federation of private retirement and life insurance (*Federação Nacional de Previdência Privada e Vida*), or "FENAPREVI", among others. Industry and government publications, including those referenced here, generally state that the information presented therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Although we have no reason to believe that any of this information or these reports are inaccurate in any material respect, we have not independently verified the competitive position, market share, market size, market growth or other data provided by third parties or by industry or other publications. We and the international or Brazilian underwriters do not make any representation as to the accuracy of such information.

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SUMMARY

The following summary is qualified in its entirety by, and is subject to, information contained elsewhere in this information memorandum (including the financial statements and the notes thereto), and in relation to the Terms and Conditions of any issue of Notes, the applicable Final Terms. See "Risk Factors" for a discussion of certain factors that should be considered in connection with an investment in the Notes.

Overview

We are a leading full-service bank in Brazil, which we believe to be one of the most attractive markets in the world given its growth potential and low penetration rate of banking products and services. We are the third largest private bank in Brazil, according to the Central Bank, with a 9.2% market share in terms of assets, as of September 30, 2009 and the largest bank controlled by a major global financial group. Our operations are located across the country and strategically concentrated in the South and Southeast, an area that accounted for approximately 73.0% of Brazil's GDP in 2007, and where we have one of the largest branch networks of any Brazilian bank. For the year ended December 31, 2009, we generated net profit of R$5.5 billion, and at that date we had total assets of R$315.9 billion and total equity of R$69.3 billion. Our Basel capital adequacy ratio (excluding goodwill) was 25.6%.

In August 2008, we acquired Banco Real which at the time was the fourth largest non government-owned Brazilian bank as measured by assets. As a result of the acquisition of Banco Real and our organic growth, our net credit portfolio increased from R$44.6 billion at June 30, 2008 to R$132.3 billion at December 31, 2008, and our total deposits increased from R$46.9 billion at June 30, 2008 to R$124.0 billion at December 31, 2008, in each case as reported in our Brazilian GAAP financial statements. In the same period, our active current account holder base increased from approximately 3.5 million to approximately 7.7 million and our distribution network of branches and on-site service units increased from 1,546 to 3,603.

Banco Real's operations are highly complementary to our pre-acquisition operations. We believe that the acquisition offers significant opportunities for the creation of operating, commercial and technological synergies by preserving the best practices of each bank. Banco Real's strong presence in the states of Rio de Janeiro and Minas Gerais has further strengthened our position in the South and Southeast, complementing our strong footprint in the region, particularly in the state of São Paulo. The acquisition of Banco Real has further consolidated our position as a full-service bank with nationwide coverage and scale to compete effectively in our target markets.

Since the mid-1990s, Brazil has benefited from political, social and macroeconomic stability coupled with improvements in real income and a resulting high rate of upward social and economic mobility. During this period, the Brazilian financial services industry has experienced substantial growth, as economic stability, increased employment rates and rising purchasing power of the Brazilian population have been contributing to an increase in penetration of financial products and services. Nonetheless, the Brazilian financial market still presents a low credit penetration as compared to that of other developed and emerging markets, offering further growth opportunities. According to a World Bank 2009 Report, the ratio of total credit to GDP was approximately 50% in Brazil in 2007. As of December 31, 2007, in the United States, the ratio of total credit to GDP was approximately 169% according to central bank statistics. The Brazilian housing credit market is still incipient, with total mortgage loans accounting for approximately 2% of the GDP in 2007, according to the Central Bank, while, for example, in the United States the figure was approximately 68% in the same period according to the World Bank. We expect that credit penetration will continue to increase as a result of a relatively stable macroeconomic environment and customer-tailored new product offerings. In addition, we expect housing financing to grow given favorable trends, including a housing deficit, government's focus on stimulating growth in the construction sector and legal reforms supporting the development of mortgage products. The Brazilian financial market is concentrated, with the five largest banks accounting for approximately 58% of total loans and 67% of total deposits at December 31, 2009, according to the Central Bank.

We are a member of the Santander Group, one of the largest financial groups in the world as measured by market capitalization. In 2009, Santander Spain's shares appreciated 71.1% compared to 2008 and registered a market value of €95.0 billion at December 31, 2009. In addition, at December 31, 2009, the Santander Group had shareholders' equity of €73.8 billion and total assets of €1,110.5 billion. With over 150 years of experience, the Santander Group has a balanced geographic diversification of its business between mature and emerging markets. The Santander Group is present in nine key markets: Spain, Portugal, Germany, United Kingdom, Brazil, Mexico, Chile, Argentina and the United States, serving approximately 90 million customers through more than 13,660 branches. In the year ended December 31, 2009, our operations accounted for approximately 20.0% of Santander Group's net income.

The following table shows certain financial and operational data for our operations.

	At and for the Year Ended December 31,		
	2009	**2008**	**2007(1)**
	(In millions of R$, except as otherwise indicated)		
Financial Data			
Assets	315,973	294,190	108,319
Total loans and advances to customers, gross	138,394	142,649	51,453
Total deposits	170,638	182,312	74,055
Shareholders' equity	68,706	49,318	8,671
Net interest income	22,167	11,438	6,195
Fee and commissions income	7,148	4,809	3,364
Total income	31,280	15,971	11,367
Net profit for the period	5,508	2,379	1,903
Return on average shareholders' equity	9.8%	10.3%	18.1%
Return on average shareholders' equity (excluding goodwill)(2)	19.3%	16.8%	18.1%
Efficiency ratio(3)	35.0%	45%	39.2%
Basel capital adequacy ratio(4)	25.6%	14.7%	14.2%
Operational Data			
Number of customers (in thousands)(5)	22,240	20,918	8,174
Number of ATMs (in units)	18,094	18,120	7,639
Number of branches (in units)	2,091	2,083	904
Market share (based on assets)(6)(7)	9.2%	10.5%	4.5%
Market share (based on deposits)(6)(7)	10.6%	11.0%	4.9%
Market share (based on loan portfolio)(6)(7)	11.5%	12.3%	5.1%

(1) 2007 Figures do not include Banco Real figures. Banco Real has been consolidated with our financial statements since August 30, 2008.

(2) "Adjusted return on average shareholders' equity," "Average shareholders' equity excluding goodwill as a percentage of average total assets excluding goodwill" and "Non performing assets as a percentage of shareholders' equity excluding goodwill" are non-GAAP financial measurements which adjust "Return on average shareholders' equity," "Average shareholders' equity as a percentage of average total assets" and "Non performing assets as a percentage of shareholders' equity", to exclude the R$27.5 billion of goodwill arising from the acquisition of Banco Real in 2008.

(3) Efficiency ratio is defined as administrative expenses divided by total income. See "Unaudited Pro Forma Consolidated Financial Information."

(4) In July 2008, new regulatory capital measurement rules, which implement the Basel II standardized approach, went into effect in Brazil, including a new methodology for credit risk and operational risk measurement, analysis and management. As a result, our capital adequacy ratios as of any date after July 2008 are not comparable to our capital ratios as of any prior date. Our Basel capital adequacy ratios are calculated excluding goodwill, in accordance with the Basel II standardized approach (provided by the "International Convergence of Capital Measurement and Capital Standards—A Revised Framework Comprehensive Version" issued by the Basel Committee on Banking Supervision from the Bank for International Settlements).

(5) Current and non-current account-holders.

(6) Source: Central Bank.

(7) As of September 30, 2009.

Our Businesses

Our business consists of three operating segments: Commercial Banking, Global Wholesale Banking and Asset Management and Insurance. The following table shows selected financial data for our operating segments.

	For the Year Ended December 31,					
	2009		2008		2007	
	Net Interest Income	% of Total	Net Interest Income	% of Total	Net Interest Income	% of Total
	(In millions of R$, except as otherwise indicated)					
Commercial Banking	20,260.3	91.4	10,191.7	89.1	5,491.8	88.6%
Global Wholesale Banking	1,766.8	8.0	1,213.5	10.6	693.3	11.2%
Asset Management and Insurance(1)	139.9	0.6	32.8	0.3	10.2	0.2%
Total	**22,167.0**	**100.0**	**11,438.0**	**100.0**	**6,195.3**	**100.0%**

(1) Includes results of operations for the year ended December 31, 2009 of the asset management and insurance companies acquired through a series of share exchange transactions (*incorporações de ações*) on August 14, 2009.

Commercial Banking: We focus on customer relationships, extending credit, services and products to individuals and corporations (other than global corporate customers who are served by our Global Wholesale Banking segment) through personal loans (including home and automobile financing, unsecured consumer financing, checking account overdraft loans, credit cards and payroll loans), leasing, commercial loans, working capital lines and foreign trade financing. Our product offering extends to private retirement plans, insurance, bill collection and processing services. Our Commercial Banking operations also include private banking typically for individuals with investment assets of over R$1.0 million. Our business model is based on a tailored approach to each income class of our individual customers (high, mid and low income classes) in order to address their specific needs. We are particularly well positioned in the mid-income class (monthly income in excess of R$1,200 and below R$4,000) and the high income class (monthly income in excess of R$4,000). Our customers are serviced throughout Brazil primarily through our branch network, which, at December 31, 2009, consisted of 2,091 branches, 1,502 on-site service units located at our corporate customers' premises, and 18,094 ATMs, as well as our Internet banking platform and our call center operations. We believe our retail operations have benefited significantly from the acquisition of Banco Real, by improving our geographic coverage of Brazil and complementing our client portfolios. For example, Banco Real has historically had strong presence in the high-income class and small and medium-sized businesses, or SMEs, and in products such as automobile financing, while our strengths have been historically in the mid-income class and civil servant sectors, and in insurance products.

Global Wholesale Banking: We are a leading wholesale bank in Brazil and offer financial services and sophisticated and structured solutions to our customers, in parallel with our proprietary trading activities. Our wholesale banking business focuses on servicing approximately 700 large local and multinational conglomerates, which we refer to as Global Banking & Markets, or "GB&M," customers. In the year ended December 31, 2009, Brazilian operations represented approximately 30.0% of the Santander Group's wholesale banking business measured by profit before tax. Our wholesale business provides our customers with a wide range of domestic and international services that are specifically tailored to the needs of each client. We offer products and services in the following key areas: global transaction banking, credit markets, corporate finance, equities, rates, market making and proprietary trading. Our customers benefit from the global services provided by the Santander Group's integrated wholesale banking network and local market expertise. Our proprietary trading desk is under strict risk control oversight and has consistently shown positive results, even under volatile scenarios.

Asset Management and Insurance: According to ANBIMA, as of December 31, 2009, our Asset Management segment had R$108.3 billion in assets under management, approximately a 20% increase from the same date in 2008, which made us the fourth largest asset manager in Brazil, with 7.5% market share. The bank was elected by *Exame* magazine in August 2009 as the best manager of Equity Funds in Brazil. Our product offering includes fixed income, money market, equity and multi-market funds. As part of our insurance business, we offer primarily bancassurance products related to our core banking business, such as home, credit life insurance and capitalization and pension products, to our retail and SME customers. On March 19, 2009, we acquired 50% of Real Seguros Vida e Previdência S.A. (formerly Real Tokio Marine Vida e Previdência S.A.). We believe that our strong branch network and client base will allow us to further expand the bancassurance business in a coordinated manner to individuals and SMEs as well as large corporations. On August 14, 2009, our shareholders transferred certain Brazilian asset management and insurance companies that were previously owned by Santander Spain to Santander Brasil, through a series of share exchange transactions (*incorporações de ações*) in order to consolidate all of the Santander Group's Brazilian insurance and asset management operations into Santander Brasil. These transactions are pending approval by the Central Bank and SUSEP (with respect to the insurance operations). See "Summary—Recent Events."

Our Competitive Strengths

We believe that our profitability and competitive advantages are the result of Santander Brasil's five pillars: nationwide presence with leading position within the high income regions of the country; wide range of products tailored to meet client needs; conservative risk profile; scalable state-of-the-art technology platform; and focus on sustainable growth, both organically and through selective acquisitions.

Relationship with the Santander Group

We believe that being part of the Santander Group offers us a significant competitive advantage over the other banks in our peer group, none of which is part of a similar global banking group. This relationship allows us to:

- leverage the Santander Group's global information systems platform, reducing our technology development costs, providing operational synergies with the Santander Group and enhancing our ability to provide international products and services to our customers;
- access the Santander Group's multinational client base;
- take advantage of the Santander Group's global presence, in particular in other countries in Latin America, to offer international solutions for our Brazilian corporate customers' financial needs as they expand their operations globally;
- selectively replicate or adapt the Santander Group's successful product offerings from other countries in Brazil;
- benefit from the Santander Group's operational expertise in areas such as internal controls and risk management, which practices have been developed in response to a wide range of market conditions across the world and which we believe will enhance our ability to grow our business within desired risk limits;
- leverage the Santander Group's experience with integrations to maximize and accelerate the generation of synergies from the Banco Real acquisition and any future acquisitions; and
- benefit from the Santander Group's management training and development which is composed of a combination of in-house training and development with access to managerial expertise in other Santander Group units outside Brazil.

Strong presence in attractive demographic and geographic areas

We are well positioned to benefit from the growth in our customer base and the relatively low penetration of financial products and services in Brazil, through sales of key products such as credit cards and insurance. Mid- and high-income customers provide access to a stable and low-cost funding base through customer time and demand deposits. Furthermore, we believe that our focus on these income classes has increased our profitability, as they have traditionally produced higher volumes and margins.

We are focused on the growing mid- and high-income classes in Brazil, which we define as individuals with monthly income in excess of R$1,200 and R$4,000, respectively. We believe that there is further potential through the use of our existing, scalable and newly redesigned IT platform for increasing the penetration of financial products and services with our client base of approximately 10.2 million current account holders according to data from the Central Bank as of December 31, 2009. For example, at December 31, 2009, only 22% of our current account holders had personal loans and only 60% had a credit card. In addition, the acquisition of Banco Real strengthened our competitive position in the South and Southeast regions of Brazil, an area that accounted for approximately 73% of Brazil's GDP in 2007, and where we now have one of the largest branch networks among Brazilian banks, according to the Central Bank. Our presence in these attractive geographic areas, combined with our focus on mid- and high-income customers allow us to effectively cover a significant portion of Brazil's economic base.

Track record of successful integrations

The Santander Group has expanded its footprint worldwide through the successful integration of numerous acquired businesses. For example, Abbey National Bank in the United Kingdom improved its efficiency ratio (cost to income) from 55.1% in 2006, two years after its acquisition by the Santander Group, to 45.2% in 2008. In addition, since 1997, the Santander Group has acquired six banks in Brazil, demonstrating its ability to execute complex acquisitions in this market, integrate the acquired companies into its existing business and improve the acquired companies' operating performance. Our first significant acquisition was of Banespa in November 2000. In our acquisitions, we aim to join the best elements of each bank into a single institution, benchmarking business strategies, key personnel, technology and processes of each bank to ensure the optimal combination for a sustainable competitive position. In particular, this is the case with our integration of Banco Real, from which we are seeking to achieve cumulative cost synergies of approximately R$2.4 billion (calculated based on the costs of Santander Brasil and Banco Real for 2008 adjusted for inflation and estimated salary increases) and cumulative revenue synergies of approximately R$300 million by December 31, 2011.

We started the process of the operational, commercial and technological integration of Banco Real immediately following the share exchange (*incorporação de ações*) in August 2008. We developed a three-year integration plan, which we are carefully executing in an effort to achieve synergies and ensure that best practices will be identified and implemented. Our wholesale banking operations have been fully integrated since the end of 2008. In March 2009, we began the integration of the branch networks and electronic distribution channels of the two institutions to enable customers to perform not only cash withdrawals but a full range of transactions at branches or ATMs of either bank. We expect to have fully integrated ATM and branch networks in 2010. We believe that we have thus far achieved our key integration goals, including maintaining and improving customer service; identifying operational strengths of each bank and maintaining and leveraging these strengths; establishing a new business culture among our employees focused on our strengths; retaining and developing trained and talented employees; and achieving our operating targets.

Leading market position

We rank third among private banks in Brazil, according to the Central Bank, in terms of assets with a market share of 9.2% at September 30, 2009. Among these banks, we believe we hold a top three market position in most of our key product lines as evidenced by our market share in the following selected products and regions.

	At December 31, 2009
	Market Share (%)
Overdraft	19.2
Payroll/individual loans	12.1
Auto leasing/CDC	15.0
Credit cards	9.6
Branches	11.6
Southeast	14.9
South	8.6

Source: Central Bank.

The acquisition of Banco Real has further enhanced our critical mass in the Brazilian market. We believe that our scale and market leadership provide us with exceptional competitive opportunities including the ability to gather market intelligence to support decision-making in determining business opportunities and in meeting our customers' needs operating as a full service bank. Since the acquisition of Banco Real, we have organically increased our market share in key business lines such as payroll/individual loans, overdraft on current accounts and credit cards. In addition, we are a leading wholesale bank in Brazil. Through our unique access to the Santander Group's global network, we are able to support our large Brazilian corporate customers in the internationalization of their businesses, for example, through trade and acquisition financing, which brings together a loan syndicate that could use several take-out strategies in different markets. As one of the top tier banks in the country, and in light of the opportunities for leveraging our operating segments, our broad product offering and geographic presence, we are well positioned to gain market share.

State-of-the-art integrated technology platform

We operate the latest generation customer-centered technology platform that incorporates the standards and processes, as well as the proven innovations, of both the Santander Group worldwide and Banco Real. The incorporation of a customer relationship management system enables us to deliver products and services targeted to the needs of our customers. Because our IT platform is integrated with the platform of the Santander Group, we are able to support our customer's global businesses and benefit from a flexible and scalable platform that will support our growth in the country. This platform has been enriched with a set of customer-focused features inherited from Banco Real, which we believe provides us with a significant competitive advantage.

Our Strategy

Our goal is to be the leading full-service bank in Brazil in terms of revenues, profitability and brand recognition, as well as client, stakeholders and work force satisfaction. We strive to be a relationship bank and the primary bank of our retail and wholesale customers based on sustainable practices, serving them with our full range of products. We believe we can achieve these goals through the following strategies:

Improve operating efficiency by benefiting from integration synergies and implementing best practices

We will continue seeking ways to further improve our operating efficiency and margins. We intend to maintain investment discipline and direct resources to areas that generate improvements in our client management and increase our revenues. We expect to be able to generate additional synergies from the combination of best practices of Santander Brasil and Banco Real, both in terms of revenues as we further leverage on relationship and cross selling opportunities across a wider client base, as well as in terms of costs as we realize the potential gains driven by scale, raising our efficiency levels. We believe that synergies creation will be supported by the complementary geographic distribution and customer base of the combined branch networks and the banks' relatively low product overlap. Our integration has already shown a significant expense reduction, with our cost to income ratio declining from 44.1% (administrative expenses divided by total income presented on a pro forma basis) in 2008 to 35.0% in 2009.

Expand product offering and distribution channels in Commercial Banking

We intend to further increase our business and operations throughout Brazil, expanding our Commercial Banking services to existing and prospective retail customers. We plan to offer new products and services to existing customers based on each customer's profile through our numerous distribution channels by leveraging our customer relationship management data base and IT platform. Our efforts related to the offer of new products and expansion of our reach to other markets will continue to be focused on the correct risk measurement of those opportunities. We also will seek to increase our market share through the offering of innovative banking products and intend to focus on product areas where we believe there is opportunity to increase our presence in the Brazilian market, for example in credit cards and insurance products. Furthermore, we plan to attract current account holders by capturing users of our products, such as automobile financing, insurance or credit cards. We will continue to focus our marketing efforts to enlarge our customer base and increase the number of products used by each client, as well as to increase our share in those products for which clients generally operate with more than one bank. We intend to improve our competitiveness by further strengthening our brand awareness, particularly through marketing.

We intend to improve and expand the distribution channels for our products through our traditional branch network and alternative marketing and direct sales distribution channels such as telemarketing, Internet banking and correspondent banks. We plan to open 600 new branches by 2013 in our stronghold area of South and Southeastern Brazil and other regions where we have critical mass. We will continue to maximize the synergies and leverage the opportunities between our corporate and retail businesses. For instance, when rendering payroll services to our corporate customers, we can place an on-site service unit at our corporate client's premises and thereby access its employees as a potential new customer base and achieve the critical mass necessary to open a new branch in that area. We intend to grow our mortgage business as a consequence of the housing deficit in Brazil and the legal reforms supporting mortgage financing.

Capitalize on our strong market position in the wholesale business

We provide multinational corporations present in Brazil and local companies, including those with operations abroad, with a wide variety of financial products, utilizing our worldwide network to serve our customers' needs with customized solutions. We intend to further focus on our strong worldwide position as a client relationship wholesale bank, in line with the Santander Group's worldwide strategy for the Global Wholesale Banking segment. We expect to benefit from the Santander Group's strengthened market position as a key player in the global banking industry and thereby strengthen our existing relationships and build new lasting relationships with new customers, exploring the widest possible range of our product portfolio, particularly higher margin products. In addition, as a leading local player with the support of a major international financial institution, we intend to be a strong supporter of Brazilian corporations as they continue to expand their businesses worldwide. Moreover, we believe that we can use our relationship with large corporate customers to access their suppliers as potential new customers. In addition, we intend to distribute treasury products to smaller companies or individuals through the Santander Global Connect (SGC) platform.

Further develop a transparent and sustainable business platform

We will maintain a commitment to economic, social and environmental sustainability in our procedures, products, policies and relationships. We will continue building durable and transparent relationships with our customers through understanding their needs and designing our products and services to meet those needs. We believe that our commitment to transparency and sustainability will help us create a business platform to maintain growth in our operations over the long term and that is instrumental to forge business relationships, improve brand recognition and attract talented professionals. We will continue to sponsor educational opportunities through *Santander Universidades* and the *Universia* portal to foster future potential customer relationships.

Continue growing our insurance business

We intend to continue growing our insurance business, particularly bancassurance. Our commitment to grow in this segment was recently demonstrated by our acquisition of Real Seguros Vida e Previdência S.A. (formerly Real Tokio Marine Vida e Previdência S.A.). We expect to increase our presence within the insurance segment by leveraging on our strong branch network and client base, particularly in the South and Southeast, to cross sell insurance products with the goal of maximizing the income generated by each customer, as well as using our strong relationships with SMEs and large corporations within the country. We intend to sell our products by means of our traditional distribution channels, such as branches, and also through ATMs, call center and Internet banking.

Recent Events

In line with our goal of becoming the leading full-service bank in Brazil and profiting from the growth of the Brazilian economy, we completed in October 2009 the largest initial public offering worldwide in 2009. We are using the proceeds from the offering to expand our physical infrastructure, by opening new branches and to increase our credit transactions, thereby increasing our market share. We also are using part of the proceeds from the offering to enhance our funding structure. In accordance with this objective, on January 22, 2010, we redeemed an Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI, classified as subordinated debt, held by Santander Spain prior to its original maturity date of March 25, 2019, in the amount of R$1.5 billion.

Our principal executive offices are located at Avenida Juscelino Kubitschek, 2,041 and 2,235, São Paulo, SP 04543-011, Brazil, and our general telephone number is (55 11) 3174-8589. Our website is www.santander.com.br. Information contained on, or accessible through, our website is not incorporated by reference in, and shall not be considered part of, this information memorandum.

THE PROGRAM

Issuer:	Banco Santander (Brasil) S.A., acting through its principal office in Brazil or its Grand Cayman Branch, as specified in the applicable Final Terms.
Global Arranger:	Santander Investment Limited.
Dealers:	Santander Investment Limited, Santander Investment Securities Inc. and such other Dealers as may be appointed from time to time by Santander under the Program.
Program Amount:	U.S.$3,500,000,000 (or its equivalent as at the respective dates of issue in other currencies) in aggregate nominal amount of Notes outstanding at any time, subject to any duly authorized increase.
Offering:	Notes may be offered (i) in the United States only to QIBs pursuant to Rule 144A under the Securities Act and/or (ii) outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act, as specified in the relevant Final Terms. See “Subscription and Sale.”
Issue Price:	Notes may be issued at par or at a discount or premium to par. The issue price for each issue of Notes shall be set forth in the applicable Final Terms.
Specified Currencies:	Notes may be denominated in any currency as may be agreed between the Issuer and the applicable Dealer or Dealers in the relevant Final Terms, subject to applicable law.
Maturities:	The Notes may be issued with maturities of seven calendar days or more from their date of issue, subject to all legal and regulatory requirements applicable to the Issuer or the applicable Specified Currency.
Interest:	Notes may (i) bear interest on a fixed rate or floating rate basis (determined by reference to one or more base rates), (ii) be issued on a fully discounted basis and not bear interest or (iii) be indexed, in each case as specified and described more fully in the applicable Final Terms.
Final Terms:	The Final Terms for each issue of Notes shall set forth, among other things, details of the Terms and Conditions of the Notes being offered. Such information may differ from that set forth herein and, in all cases, shall supplement and, to the extent inconsistent herewith, supersede the information herein.
Withholding Tax:	Payments in respect of the Notes will be made without withholding or deduction in respect of any taxes, duties, assessments or governmental charges imposed in Brazil, the Cayman Islands or any political subdivision or taxing authority thereof or therein or any other jurisdiction having power to tax in which the Issuer is organized, doing business or otherwise subject to the power to tax. The Issuer will, subject to certain exceptions and limitations, pay additional amounts (as described herein) in respect of such withholding or deduction so that the holder of the Notes receives the amount such holder would receive in the absence of such withholding or deduction although the Issuer may have the option to redeem the Notes in such an event if so specified in the applicable Final Terms. See “Terms and Conditions of the Notes —Taxation.”

Foreign Currency Constraint:	If it is specified in the applicable Final Terms, the Notes may contain a Foreign Currency Constraint provision, as more fully described herein and in the applicable Final Terms. Upon the occurrence of a Foreign Currency Constraint Event (as defined herein), 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 (as defined herein) 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 the Issuer has fully complied with its obligations under Condition 15 of the Notes. See "Terms and Conditions of the Notes—Foreign Currency Constraint, Sovereign Event and Credit Event—Foreign Currency Constraint."
Sovereign Event:	If it is specified in the relevant Final Terms that the Notes contain a Sovereign Event provision, as more fully described in the Conditions, on the occurrence of a Sovereign Event (as defined in the Terms and Conditions), the Issuer may elect to redeem such Notes or deliver on the maturity date or earlier redemption date, the Governmental Obligations (as defined in the Terms and Conditions) or *reais* to the holder, whereupon the Issuer's obligations in respect of such payment under such Note shall be deemed fully satisfied and discharged. See "Terms and Conditions of the Notes—Foreign Currency Constraint, Sovereign Event and Credit Event—Sovereign Event."
Credit Event:	If it is specified in the relevant Final Terms that the Notes contain a Credit Event provision, as more fully described in the Terms and Conditions, on the occurrence of a Credit Event (as defined in the Terms and Conditions), the Issuer may elect to redeem such Notes or deliver on the maturity date or earlier redemption date, the Credit Obligations (as defined in the Terms and Conditions) or *reais* to the holder, whereupon the Issuer's obligations in respect of such payment under such Note shall be deemed fully satisfied and discharged. See "Terms and Conditions of the Notes—Foreign Currency Constraint, Sovereign Event and Credit Event—Credit Event."

Form of Notes:	Notes may be issued in registered form, without interest coupons, or in bearer form, with or without interest coupons. Registered Notes shall be represented initially by one or more Global Notes in registered form, without Coupons, which shall be either DTC Global Notes or an International Global Note Certificate, as specified in the applicable Final Terms. In the case of Notes represented by one or more DTC Global Notes, the DTC Unrestricted Global Note and the DTC Restricted Global Note will be registered in the name of DTC, as depositary, or a successor or nominee thereof, and deposited on behalf of the purchasers thereof with a custodian for DTC. Beneficial interests in the DTC Restricted Global Note and DTC Unrestricted Global Note shall be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Purchasers of Notes may hold their interests in a DTC Restricted Global Note directly through DTC if they are participants in the DTC system, or indirectly through organizations which are participants in such system. Purchasers of Notes may elect to hold interests in the DTC Unrestricted Global Note through any of DTC (in the United States), Clearstream, Luxembourg, or Euroclear if they are participants in such systems or indirectly through organizations which are participants in such systems, subject to the requirement that on or prior to the 40th day after the later of the commencement of the offering and the date of delivery of the Notes of each Series, beneficial interests in a DTC Unrestricted Global Note representing Notes of such Series may be held only through Euroclear or Clearstream, Luxembourg. In the case of Notes represented by an International Global Note Certificate, such International Global Note Certificate will be deposited with a Common Depositary for and registered in the name of a common nominee of Euroclear and Clearstream, Luxembourg for credit to the respective accounts of beneficial owners of the Notes represented thereby. See "Book-Entry; Delivery and Form." Bearer Notes will, unless otherwise specified, only be sold outside the United States to non-U.S. persons in reliance on Regulation S and will, unless otherwise specified in the applicable Final Terms, initially be represented by a Temporary Global Note without interest coupons attached, deposited with or on behalf of a Common Depositary located outside the United States for Euroclear and Clearstream, Luxembourg. Interests in a Temporary Global Note will be exchangeable for interests in a permanent global Note in bearer form, without interest coupons (a "Permanent Global Note"), which may be exchangeable in the limited circumstances set out therein in whole, but not in part, for definitive Notes in bearer form (each, a "Definitive Bearer Note"). See "Book-Entry; Delivery and Form." Bearer Notes will not be exchangeable for Registered Notes and Registered Notes will not be exchangeable for Bearer Notes. See "Terms and Conditions of the Notes—Form, Denomination, Title, Specified Currency and Final Terms" and "Book-Entry; Delivery and Form."

Denominations:	Notes will be issued in such denominations as may be specified in the applicable Final Terms and, in all cases, Notes shall be issued in such other minimum denominations as may be allowed or required from time to time by the relevant central bank or equivalent regulatory authority in the relevant jurisdiction, or any laws or regulations applicable to the Issuer or the relevant Specified Currency, as the case may be, subject in all cases to changes in applicable legal or regulatory requirements. In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under European Council Directive 2003/71/EC, the minimum denomination shall be at least €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). In the case of any Registered Notes which are resold pursuant to Rule 144A under the Securities Act, as amended, the minimum denomination shall be at least U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof or, in respect of Notes denominated in a currency other than U.S. dollars, its approximate U.S. dollar equivalent. See "Terms and Conditions of the Notes—Form, Denomination, Title, Specified Currency and Final Terms" and "Book-Entry; Delivery and Form."
Use of Proceeds:	The net proceeds from the sale of Notes will be used by Santander for general banking purposes or as set forth in the Final Terms applicable to each Series.
Redemption:	The Final Terms relating to each Tranche of Notes will specify if such Notes can be redeemed prior to their stated maturity or if such Notes will be redeemable at par or at such other redemption amount as specified. See "Terms and Conditions of the Notes—Redemption and Purchase."
Tax Redemption:	The Notes will be redeemable at the Issuer's option, in whole (but not in part), at the amount specified in the applicable Final Terms, plus accrued interest, in the event the Issuer is obliged to pay any additional amounts in respect of, among other things, Brazilian or Cayman Islands (or any political subdivision or any other jurisdiction having power to tax in which the Issuer is organized, doing business or otherwise subject to the power to tax (any of the aforementioned being a "Taxing Jurisdiction")) withholding or other taxes as a result of a change in tax laws or regulations of a Taxing Jurisdiction or in the interpretation thereof. See "Terms and Conditions of the Notes—Redemption and Purchase—Redemption for Taxation Reasons."
Ranking:	The Notes will be direct, unconditional and unsubordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves and shall at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer subject to certain limitations on payments if there is a Foreign Currency Constraint Event, a Sovereign Event or a Credit Event. See "Terms and Conditions of the Notes—Status."

Negative Pledge:	There will be a negative pledge in respect of any Security securing any Public External Indebtedness or Guarantee in respect of Public External Indebtedness of the Issuer or any of its Material Subsidiaries subject to certain exceptions, all as more fully set out in Condition 4 of the Notes. See "Terms and Conditions of the Notes—Negative Pledge and Covenants."
Listing and Trading:	Application has been made to admit the Program for listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. Santander may apply to, but is not obliged to, admit the Notes to be issued under the Program to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. The Final Terms applicable to a Series will specify whether or not Notes of such Series have been admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. In case the Notes are not admitted to listing on the Luxembourg Stock Exchange and to trading on the Euro MTF market, Santander is not obliged to list the Notes on any other stock exchange.
Terms and Conditions:	The Terms and Conditions applicable to each Series of Notes will be as agreed between the Issuer and the relevant Dealers or purchasers at or prior to the date of issue of such Series and will be specified in the Final Terms prepared in respect of such Notes. The Terms and Conditions applicable to each Series will accordingly be those set out in this information memorandum as supplemented, modified or replaced by the relevant Final Terms.
Constitution:	The Notes are constituted, and investors' rights will be governed, by an amended and restated trust deed (the "Trust Deed"), dated March 26, 2010, between the Issuer and HSBC Corporate Trustee Company (UK) Limited, as trustee, a copy of which will be available for inspection at the specified offices of the trustee, the registrar, the registered office of Santander and the Listing Agent.
Trustee:	HSBC Corporate Trustee Company (UK) Limited.
Principal Paying Agent:	Mizuho Corporate Bank, Ltd. London Branch.
European Issuing and Paying Agent, Exchange Agent and Calculation Agent:	HSBC Bank plc.
Registrar, Paying Agent and Transfer Agent	HSBC Bank USA, National Association (in respect of Registered Notes only).
Luxembourg Paying Agent, Transfer Agent and Listing Agent:	Dexia Banque Internationale à Luxembourg, société anonyme

Selling Restrictions:	The offer and sale of Notes will be subject to selling restrictions including, in particular, those of the United States of America, the United Kingdom, the Cayman Islands, Spain, Brazil, Portugal, Japan and the Bahamas. Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements in effect at the time of such issuance. See "Subscription and Sale." Any further restrictions that may apply to a particular issue of Notes will be specified in the applicable Final Terms.
Further Issuances:	The Issuer reserves the right, with respect to any Series of Notes, from time to time without the consent of the holders of the Notes, to issue additional Notes of a Series so that the same shall be consolidated with, form a single issue with, and increase the aggregate nominal amount of, such Series of Notes.
Governing Law:	The Notes and the Trust Deed will be governed by, and be construed in accordance with, English law.
Clearance and Settlement:	The Notes shall be accepted for clearing through one or more clearing systems as specified in the applicable Final Terms. These systems shall include, in the United States, the system operated by DTC and, outside the United States, the systems operated by Euroclear and Clearstream, Luxembourg.

SUMMARY FINANCIAL INFORMATION

The financial information for Santander Brasil at and for the years ended December 31, 2009, 2008 and 2007 has been derived from the audited consolidated financial statements prepared in accordance with IFRS, included elsewhere in this information memorandum. The financial information for Banco Real has been consolidated with our financial statements since August 30, 2008. The Banco Real financial data at and for the year ended December 31, 2007 and for the period from January 1 to August 29, 2008 has been derived from the audited combined financial statements prepared in accordance with IFRS for Banco Real included elsewhere in this information memorandum. Our results of operations for the year ended December 31, 2008 are not comparable to our results of operations for the year ended December 31, 2007 because of the consolidation of Banco Real in our financial statements as from August 30, 2008. See "Management's Discussion and Analysis of Financial Condition and Results of Operations —Acquisition of Banco Real."

The summary combined financial data for the period from January 1 to August 29, 2007 for Banco Real has been derived from the unaudited combined interim financial information included elsewhere in this information memorandum, which in the opinion of our management, includes all adjustments necessary to present fairly our results of operations and financial condition at the dates and for the periods presented.

The pro forma summary financial data for Santander Brasil for the year ended December 31, 2008 has been derived from the unaudited pro forma consolidated financial information included elsewhere in this information memorandum, which gives effect to our incorporation of Banco Real as if the acquisition of Banco Real by the Santander Group and the share exchange transaction (*incorporação de ações*) had occurred as of January 1, 2008. See "Unaudited Pro Forma Consolidated Financial Information."

This financial information should be read in conjunction with our audited financial statements and the related notes and the sections entitled "Selected Financial and Operating Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this information memorandum.

Santander Brasil Income Statement Data

	Santander Brasil				
	For the Year Ended December 31,				
	2009	2009	2008 (Pro Forma)(2)	2008	2007
	(In millions of U.S.$)(1)	(In millions of R$, except as otherwise indicated)			
Interest and similar income	22,595	39,343	38,102	23,768	13,197
Interest expense and similar charges	(9,864)	(17,176)	(18,872)	(12,330)	(7,002)
Net interest income	12,731	22,167	19,230	11,438	6,195
Income from equity instruments	17	30	39	37	36
Share of results of entities accounted for using the equity method	169	295	305	112	6
Fee and commission income	4,105	7,148	6,849	4,809	3,364
Fee and commission expense	(523)	(910)	(983)	(555)	(266)
Gains/losses on financial assets and liabilities (net)	1,560	2,716	(485)	(1,286)	1,517
Exchange differences (net)	(29)	(51)	1,261	1,476	382
Other operating income (expenses)	(66)	(115)	(74)	(60)	133
Total income	17,965	31,280	26,143	15,971	11,367
Administrative expenses	(6,287)	(10,947)	(11,532)	(7,185)	(4,460)
Depreciation and amortization	(717)	(1,249)	(1,236)	(846)	(580)
Provisions (net)(2)	(1,999)	(3,481)	(1,702)	(1,230)	(1,196)
Impairment losses on financial assets (net)(3)	(5,724)	(9,966)	(6,570)	(4,100)	(2,160)
Impairment losses on other assets (net)	(517)	(901)	(85)	(77)	(298)
Gains/losses on disposal of assets not classified as non-current assets held for sale	1,935	3,369	33	7	1
Gains/losses on disposal of non-current assets held for sale	18	32	22	9	13
Profit before tax	4,673	8,137	5,072	2,549	2,687
Income tax	(1,510)	(2,629)	(1,159)	(170)	(784)
Consolidated profit for the year	**3,163**	**5,508**	**3,913**	**2,379**	**1,903**

(1) Translated for convenience only using the selling rate as reported by the Central Bank at December 31, 2009 for *reais* into U.S. dollars of R$1.7412 to U.S.$1.00.

(2) See “Unaudited Pro Forma Consolidated Financial Information” for more information.

(3) Principally provisions for legal and tax contingencies.

Santander Brasil Balance Sheet Data

	Santander Brasil			
	At December 31,			
	2009	2009	2008	2007
	(In millions of U.S.$)(1)	(In millions of R$)		
Assets				
Cash and balances with the Brazilian Central Bank	15,661	27,269	23,700	22,277
Financial assets held for trading	11,553	20,116	19,986	12,293
Other financial assets at fair value through profit or loss	9,358	16,295	5,575	1,648
Available-for-sale financial assets	26,652	46,406	30,736	9,303
Loans and receivables	87,390	152,163	162,725	55,034
Hedging derivatives	94	163	106	–
Non-current assets held for sale	99	172	113	32
Investments	241	419	634	55
Tangible assets	2,126	3,702	3,829	1,111
Intangible assets	18,159	31,618	30,995	1,799
Tax assets	9,062	15,779	12,920	4,223
Other assets	1,075	1,871	2,871	544
Total assets	**181,469**	**315,973**	**294,190**	**108,319**
Liabilities				
Financial liabilities held for trading	2,547	4,435	11,210	4,650
Other financial liabilities at fair value through profit or loss	1	2	307	690
Financial liabilities at amortized cost	116,912	203,568	213,973	84,781
Deposits from the Brazilian Central Bank	138	240	185	–
Deposits from credit institutions	12,035	20,956	26,325	18,217
Customer deposits	85,826	149,440	155,495	55,147
Marketable debt securities	6,570	11,439	12,086	2,806
Subordinated liabilities	6,493	11,305	9,197	4,210
Other financial liabilities	5,851	10,188	10,685	4,401
Hedging derivatives	6	10	265	–
Liabilities for insurance	8,917	15,527	–	–
Provisions(2)	5,445	9,480	8,915	4,816
Tax liabilities	5,431	9,457	6,156	1,719
Other liabilities	2,428	4,228	3,527	1,454
Total liabilities	**141,688**	**246,707**	**244,353**	**98,111**
Shareholders' equity	39,459	68,706	49,318	8,671
Minority interests	1	1	5	–
Valuation adjustments	321	559	514	1,537
Total equity	**39,781**	**69,266**	**49,837**	**10,208**
Total liabilities and equity	**181,469**	**315,973**	**294,190**	**108,319**
Average assets	171,246	298,174	163,621	100,243
Average interest-bearing liabilities	105,865	184,332	109,455	69,204
Average shareholders' equity	32,272	56,192	23,110	10,521

(1) Translated for convenience only using the selling rate as reported by the Central Bank at December 31, 2009 for *reais* into U.S. dollars of R$1.7412 to U.S.$1.00.

(2) Provisions for pensions and contingent liabilities.

Santander Brasil Ratios

	At and for the Year Ended December 31,		
	2009	2008	2007
Profitability and performance			
Net yield(1)	9.7	8.6	7.2
Return on average total assets	1.8	1.5	1.9
Return on average shareholders' equity	9.8	10.3	18.1
Adjusted return on average shareholders' equity(2)	19.3	16.8	18.1
Capital adequacy			
Average shareholders' equity as a percentage of average total assets	18.8	14.1	10.5
Average shareholders' equity excluding goodwill as a percentage of average total assets excluding goodwill(2)	10.5	9.2	10.5
Basel capital adequacy ratio(3)	25.6	14.7	14.2
Asset quality			
Non-performing assets as a percentage of total loans(4)	7.2	5.4	4.1
Non-performing assets as a percentage of total assets(4)	3.1	2.6	2.2
Non-performing assets as a percentage of computable credit risk(4)(5)	6.2	4.7	3.2
Allowance for credit losses as a percentage of non-performing assets(4)	101.7	105.8	107.5
Allowance for credit losses as a percentage of total loans	7.3	5.7	4.4
Net loan charge-offs as a percentage of total loans	6.2	2.3	4.7
Non-performing assets as a percentage of shareholders' equity	14.4	15.7	24.1
Non-performing assets as a percentage of shareholders' equity excluding goodwill(2)(4)	24.5	35.4	24.1
Liquidity			
Total loans, net as a percentage of total funding	66.4	66.0	60.7
Deposits as a percentage of total funding	88.2	89.5	91.3
Other Information			
Efficiency			
Efficiency ratio(6)	35.0	45.0	39.2

(1) Net yield is defined as net interest income (including dividends on equity securities) divided by average interest earning assets.

(2) "Adjusted return on average shareholders' equity," "Average shareholders' equity excluding goodwill as a percentage of average total assets excluding goodwill" and "Non-performing assets as a percentage of shareholders' equity excluding goodwill" are non-GAAP financial measurements which adjust "Return on average shareholders' equity," "Average shareholders' equity as a percentage of average total assets" and "Non-performing assets as a percentage of shareholders' equity," to exclude the R$27.5 billion goodwill arising from the acquisition of Banco Real in 2008.

The reconciliation below presents the calculation of these non-GAAP financial measurements from their respective most directly comparable GAAP financial measurements. Such reconciliation was made only for the years ended December 31, 2009 and 2008 because goodwill was not material in the year ended December 31, 2007 and, accordingly, the ratios presented are unaffected by the exclusion of goodwill.

	At and for the Year Ended December 31,	
	2009	2008
Return on average shareholders' equity:		
Net income	5,507,964	2,378,626
Average shareholders' equity	56,191,917	23,109,873
Return on average shareholders' equity	9.8%	10.3%
Adjusted return on average shareholders' equity:		
Net income	5,507,964	2,378,626
Average shareholders' equity	56,191,917	23,109,873
Average goodwill	27,713,675	8,924,823
Average shareholders' equity excluding goodwill	28,478,242	14,185,050
Adjusted return on average shareholders' equity	19.3%	16.8%
Average shareholders' equity as a percentage of average total assets:		
Average shareholders' equity	56,191,917	23,109,873
Average total assets	298,173,433	163,621,250
Average shareholders' equity as a percentage of average total assets	18.8%	14.1%
Average shareholders' equity excluding goodwill as a percentage of average total assets excluding goodwill:		
Average shareholders' equity	56,191,917	23,109,873
Average goodwill	27,713,675	8,924,823
Average shareholders' equity excluding goodwill	28,478,242	14,185,050
Average total assets	298,173,433	163,621,250
Average goodwill	27,713,675	8,924,823
Average total assets excluding goodwill	270,459,758	154,696,427
Average shareholders' equity excluding goodwill as a percentage of average total assets excluding goodwill	10.5%	9.2%
Non-performing assets as a percentage of shareholders' equity:		
Non-performing assets	9,899,884	7,730,464
Shareholders' equity	68,706,363	49,317,582
Non-performing assets as a percentage of shareholders' equity	14.4%	15.7%
Non-performing assets as a percentage of shareholders' equity excluding goodwill:		
Non-performing assets	9,899,884	7,730,464
Shareholders' equity	68,706,363	49,317,582
Goodwill	28,312,236	27,488,426
Shareholders' equity excluding goodwill	40,394,127	21,829,156
Non-performing assets as a percentage of shareholders' equity excluding goodwill	24.5%	35.4%

Our calculation of these non-GAAP measures may differ from the calculation of similarly titled measures used by other companies. The Bank's management believes that these non-GAAP financial measures provide useful information to investors because the substantial impact of the R$27.5 billion goodwill arising from the acquisition of Banco Real during the year ended December 31, 2008 obscures the significance of other factors affecting shareholders' equity and the related ratios. In addition, consistent with the guidance provided by the Basel II framework with respect to capital measurement, in all measures used to manage the Bank, management considers shareholders' equity excluding goodwill. Management believes that exclusion of goodwill from shareholders' equity, in addition to being consistent with Basel II, more accurately reflects the economic substance of the Bank's capital because goodwill is not an asset available to absorb cash losses and is not otherwise taken into account by the Bank in managing its operations. Accordingly, management believes that the non-GAAP measures presented are useful to investors, as well as to management, because they reflect the economic substance of the Bank's capital. The only limitation associated with the exclusion of goodwill from shareholders' equity is that it has the effect of excluding a portion of the total investment in the Bank's assets. Management compensates for this limitation by also considering shareholders equity including goodwill, as set forth in the above table.

(3) In July 2008, new regulatory capital measurement rules, which implement the Basel II standardized approach, went into effect in Brazil, including a new methodology for credit risk and operational risk measurement, analysis and management. As a result, our capital adequacy ratios as of any date after July 2008 are not comparable to our capital ratios as of any prior date. Our Basel capital adequacy ratios are calculated excluding goodwill, in accordance with the Basel II standardized approach (provided by the "International Convergence of Capital Measurement and Capital Standards—A Revised Framework Comprehensive Version" issued by the Basel Committee on Banking Supervision from the Bank for International Settlements).
(4) Non-performing assets include all credits past due by more than 90 days and other doubtful credits.
(5) Computable credit risk is the sum of the face amounts of loans and leases (including non-performing assets), guarantees and documentary credits.
(6) Efficiency ratio is defined as administrative expenses divided by total income. See "Unaudited Pro Forma Consolidated Financial Information."

Banco Real Combined Income Statement Data

	Banco Real (Combined)		
	For the Period from January 1 to August 29,		For the Year Ended December 31,
	2008	2007	2007
	(In millions of R$, except as otherwiseindicated)		
Interest and similar income	14,007	12,075	19,070
Interest expense and similar charges	(6,552)	(5,211)	(7,800)
Net interest income	7,455	6,864	11,270
Income from equity instruments	2	13	18
Income from companies accounted for by the equity method	193	137	183
Fee and commission income	2,040	1,635	2,525
Fee and commission expense	(428)	(479)	(762)
Gain/loss on financial assets and liabilities (net)	798	870	1,744
Exchange differences (net)	(215)	(153)	(179)
Other operating income (expenses)	(17)	(146)	(287)
Total income	9,828	8,741	14,512
Administrative expenses	(4,347)	(3,760)	(6,227)
Depreciation and amortization	(288)	(211)	(339)
Provision (net)	(472)	(303)	(928)
Impairment losses on financial assets (net)	(2,470)	(1,838)	(2,897)
Impairment losses on other assets (net)	(8)	(36)	(33)
Gain/(losses) on disposal of assets not classified as non-current assets held for sale	25	20	28
Gain/(losses) on non-current assets held for sale	13	36	38
Operating profit before taxes	2,281	2,649	4,154
Income taxes	(907)	(1,115)	(1,721)
Profit for the year/period	1,374	1,534	2,433
Profit attributable to the Parent	1,374	1,534	2,432
Profit attributable to minority interests	–	–	1

Banco Real Combined Balance Sheet Data

	Banco Real (Combined) At December 31, 2007 (in millions of R$)
Cash and balances with Brazilian Central Bank	10,949
Financial assets held for trading	3,396
Other financial assets at fair value through profit or loss	147
Available for sale financial assets	12,779
Loans and receivables	77,310
Hedging derivatives	651
Non-current assets held for sale	39
Investments in associates	333
Tangible assets	1,051
Intangible assets	1,207
Tax assets	3,980
Other assets	985
Total assets	**112,827**
Financial liabilities held for trading	1,725
Financial liabilities at amortized cost	90,672
Hedging derivatives	5
Provisions	3,443
Tax liabilities	2,129
Other liabilities	1,695
Total liabilities	**99,669**
Shareholders' equity	13,094
Issued capital	9,322
Reserves	1,542
Profit for the year attributable to the Parent	2,432
Less: Dividends and remuneration	(202)
Valuation adjustments	59
Minority interests	5
Total equity	**13,158**
Total liabilities and equity	**112,827**

RISK FACTORS

An investment in the Notes involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the Notes could decline due to any of these risks or other factors, and you may lose all or part of your investment. The risks described below are those that we currently believe may materially affect us.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, could adversely affect us and the market price of our securities.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policies and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition and results of operations, as well as the market price of our securities, may be adversely affected by changes in policies or regulations involving or affecting factors such as:

- interest rates;
- exchange rates and controls and restrictions on the movement of capital out of Brazil, such as those which were briefly imposed in 1989 and early 1990;
- currency fluctuations;
- inflation;
- liquidity of the domestic capital and lending markets;
- tax and regulatory policies; and
- other political, social and economical developments in or affecting Brazil.

Although the Brazilian government has implemented sound economic policies over the last few years, uncertainty over whether the Brazilian government will implement changes in policy or regulation 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. These uncertainties and other developments in the Brazilian economy may adversely affect us and the market value of our securities.

Government efforts to combat inflation may hinder the growth of the Brazilian economy and could harm our business.

Brazil has experienced extremely high rates of inflation in the past and has therefore implemented monetary policies that have resulted in one of the highest real interest rates in the world. Inflation and the Brazilian government's measures to fight it, principally through the Central Bank, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates and high compulsory deposit requirements may restrict Brazil's growth and the availability of credit, reduce our loan volumes and increase our loan loss provisions. Conversely, more lenient government and Central Bank policies and interest rate decreases may trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect our interest rate spreads.

Since 2001, the Central Bank has frequently adjusted the base interest rate. The Central Bank reduced the base interest rate during the second half of 2003 and the first half of 2004. In order to control inflation, the Central Bank increased the base interest rate several times from 16.0% per annum on August 18, 2004 to 19.75% per annum on May 18, 2005. During the following two years, favorable macroeconomic figures and controlled inflation within the Central Bank target range led the Central Bank to lower the base interest rate several times from 18.0% in December of 2005 to 11.25% in September of 2007. In April and June of 2008, however, the Central Bank increased the base interest rate by 0.5% respectively, to 12.25%, due to the then macroeconomic conditions and the expectations of inflation in 2008. In July 2009, the SELIC rate was reduced in order to encourage an increase in the availability of credit to 8.75% where it has remained since then.

As a bank in Brazil, the vast majority of our income, expenses, assets and liabilities are directly tied to interest rates. Therefore, our results of operations and financial condition are significantly affected by inflation, interest rate fluctuations and related government monetary policies, all of which may materially and adversely affect the growth of the Brazilian economy, our loan portfolios, our cost of funding and our income from credit operations.

Exchange rate instability may have a material adverse effect on the Brazilian economy and on us.

The Brazilian currency has during the last decades experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching a selling exchange rate of R$3.53 per U.S.$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macroeconomic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R$1.56 per U.S.$1.00 in August 2008. In the context of the crisis in the global financial markets since mid-2008, the *real* depreciated 31.9% against the U.S. dollar in 2008. On December 31, 2009, the exchange rate was R$1.7412 per U.S.$1.00.

Depreciation of the *real* against the U.S. dollar could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole and harm our financial condition and results of operations. Additionally, depreciation of the *real* could make our foreign currency-linked obligations and funding more expensive, negatively affect the market price of our securities portfolios and have similar consequences for our borrowers. On the other hand, appreciation of the *real* relative to the U.S. dollar and other foreign currencies could lead to a deterioration of the Brazilian foreign exchange current accounts, as well as dampen export-driven growth. Depending on the circumstances, either depreciation or appreciation of the *real* could materially and adversely affect the growth of the Brazilian economy and our business, financial condition and results of operations.

Developments and the perception of risk in other countries, especially in the United States and in emerging market countries, may adversely affect our access to financing and the market price of our securities.

The market value of securities of Brazilian issuers is affected by economic and market conditions in other countries, including the United States and other Latin American and emerging market countries. Although economic conditions in those countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging countries may diminish investor interest in securities of Brazilian issuers, including our securities. This could adversely affect the market price of the Notes and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms, or at all.

In addition, the global financial crisis has had significant consequences, including in Brazil, such as stock and credit market volatility, unavailability of credit, higher interest rates, a general economic slowdown, volatile exchange rates, among others, which may, directly or indirectly, adversely affect us and the market price of the notes.

Risks Relating to Santander Brasil and the Brazilian Financial Services Industry

Changes in regulation may negatively affect us.

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

- minimum capital requirements;
- compulsory deposit and/or reserve requirements;
- requirements for investments in fixed rate assets;
- lending limits and other credit restrictions, including compulsory allocations;
- limits and other restrictions on fees;
- limits on the amount of interest banks can charge or the period for capitalizing interest;
- accounting and statistical requirements; and
- other requirements or limitations in the context of the global financial crisis.

The regulatory structure governing Brazilian financial institutions is continuously evolving and the Central Bank has proven to very actively and extensively react to developments in our industry. For example, in early 2008, the Central Bank created a compulsory deposit requirement on interbank deposits from leasing companies and since our leasing company invests most of its available cash in interbank deposits with us, this could have an adverse effect on our cost of funding. In February 2010, the Central Bank increased compulsory deposits to the levels which where in place before the deterioration of the markets in 2008. Central Bank measures and the amendment of existing laws and regulations or the adoption of new laws or regulations could adversely affect our ability to provide loans, make investments or render certain financial services.

Our securities and derivative financial instruments are subject to market price and liquidity variations due to changes in economic conditions and may produce material losses.

Financial instruments and securities represent a significant amount of our total assets. Any realized or unrealized future gains or losses from these investments or hedging strategies could have a significant impact on our income. These gains and losses, which we account for when we sell or mark-to-market investments in financial instruments, can vary considerably from one period to another. If, for example, we enter into derivatives 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 reference point. 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. Any losses on our securities and derivative financial instruments could materially and adversely affect our operating income and financial condition. In addition, any decrease in the value of these securities and derivatives portfolios may result in a decrease in our capital ratios, which could impair our ability to engage in lending activity at the levels we currently anticipate.

Changes in base interest rates by the Central Bank could adversely affect our results of operations and profitability.

The Central Bank's Monetary Policy Committee (*Comitê de Política Monetária do Banco Central*), or "COPOM" establishes the base interest rate for the Brazilian banking system, and uses this rate as an instrument of monetary policy. The base interest rate is the benchmark interest rate payable to holders of some securities issued by the Brazilian government and traded at the *Sistema Especial de Liquidação e Custódia*, the Special System for Settlement and Custody, or "SELIC." As of December 31, 2004, 2005, 2006, 2007, 2008 and 2009, the basic interest rate was 17.8%, 18.0%, 13.3%, 11.3% ,13.8% and 8.75% respectively.

Since 2001, the Central Bank has frequently adjusted the base interest rate. The Central Bank reduced the base interest rate during the second half of 2003 and the first half of 2004. In order to control inflation, the Central Bank increased the base interest rate several times from 16.0% per annum on August 18, 2004 to 19.75% per annum on May 18, 2005. During the following two years, favorable macroeconomic figures and controlled inflation within the Central Bank target range led the Central Bank to lower the base interest rate several times from 18.0% in December of 2005 to 11.25% in September of 2007. In April and June of 2008, however, the Central Bank increased the base interest rate by 0.5% respectively, to 12.25%, due to macroeconomic conditions at the time and the expectations of inflation in 2008. In July 2009, the Central Bank reduced the base interest rate in order to encourage an increase in the availability of credit and the SELIC rate was lowered to 8.75%.

Although increases in the base interest rate typically enable us to increase financial margins, such increases could adversely affect our results of operations by, among other effects, reducing demand for our credit and investment products, increasing our cost of funds and increasing the risk of customer default. Decreases in the base interest rate could also adversely affect our results of operations by, among other effects, decreasing the interest income we earn on our interest-earning assets and lowering margins.

The increasingly competitive environment and recent consolidations in the Brazilian financial services market may adversely affect our business prospects.

The Brazilian financial markets, including the banking, insurance and asset management sectors, are highly competitive. We face significant competition in all of our principal areas of operation from other large Brazilian and international banks, both public and private, and insurance companies. In recent years, the presence of foreign banks and insurance companies in Brazil has grown and competition in the banking and insurance sectors and in markets for specific products has increased, including an increase of competition by Brazilian public banks. Since the beginning of 2009, public banks in Brazil have been aggressively increasing loan volumes at spreads lower than those of private banks. As a consequence, the market share of public banks has increased relative to the market share of private banks, which may negatively affect our results.

The acquisition of an insurance company or of a bank by one of our competitors would likely increase such competitor’s market share and customer base, and, as a result, we may face heightened competition. An increase in competition may negatively affect our business results and prospects by, among other things:

- limiting our ability to increase our customer base and expand our operations;
- reducing our profit margins on the banking, insurance, leasing and other services and products we offer; and
- increasing competition for investment opportunities.

We may experience increases in our level of past due loans as our loan portfolio matures.

Our loan portfolio has grown substantially in recent years. Any corresponding rise in our level of past due loans may lag behind the rate of loan growth. Rapid loan growth may also reduce our ratio of past due loans to total loans until growth slows or the portfolio becomes more seasoned. This may result in increases in our loan loss provisions, charge-offs and the ratio of past due loans to total loans. In addition, as a result of the increase in our loan portfolio and the described lag in any corresponding rise in our level of past due loans, our historic loan loss experience may not be indicative of our future loan loss experience.

Our market, credit and operational risk management policies, procedures and methods may not be fully effective in mitigating our exposure to all risks, including unidentified or unanticipated risks.

Our market and credit risk management policies, procedures and methods, including our use of value at risk, or “VaR”, and other statistical modeling tools, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk, including risks that we fail to identify or anticipate. Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in our statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses. If existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits.

In addition, our businesses depend on the ability to process a large number of transactions efficiently and accurately. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, information systems failures or from external events that interrupt normal business operations. We also face the risk that the design of our controls and procedures for mitigating operational risk proves to be inadequate or is circumvented. We have suffered losses from operational risk in the past and there can be no assurance that we will not suffer material losses from operational risk in the future.

We may fail to recognize the contemplated benefits of the acquisition of Banco Real.

The value of the Notes could be adversely affected to the extent we fail to realize the benefits we hope to achieve from the integration of Santander and Banco Real, in particular, cost savings and revenue generation arising from integration of the two banks' operations. We may fail to realize these projected cost savings and revenue generation in the time frame we anticipate or at all due to a variety of factors, including our inability to carry out headcount reductions, the implementation of our firm culture and the integration of our back office operations or delays or obstacles in the integration of our information technology platform and operating systems. It is possible that the acquisition could result in the loss of key employees, the disruption of each bank's ongoing business and inconsistencies in standards, controls, procedures and policies and the dilution of brand recognition of the Santander and Banco Real brands. Moreover, the success of the acquisition will at least in part be subject to a number of political, economic and other factors that are beyond our control.

We are vulnerable to disruptions and volatility in the global financial markets as well as to government action intended to alleviate the effects of the recent financial crisis.

The global financial markets deteriorated sharply beginning in the second half of 2007, resulting in a prolonged credit and liquidity crisis that has begun to ease following the first quarter of 2009. Banks in many markets globally faced decreased liquidity or a complete lack of liquidity, rapid deterioration of financial assets in their balance sheets and resulting decreases in their capital ratios that severely constricted their ability to engage in further lending activity. We routinely transact with such institutions as counterparties in the financial services industry, as well as brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional customers. While the severity of the credit and liquidity crisis has eased in 2009, the financial industry continues to recover from the effects of the crisis and we cannot predict exactly how long it will take for the global markets to fully recover. If significant financial counterparties experience ongoing liquidity problems or the financial services industry in general is unable to recover from the effects of the crisis, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, the financial condition of our borrowers has, in some instances, been adversely affected by the financial and economic crisis, which has in turn increased our recent non-performing loans, impaired our loans and other financial assets and resulted in decreased demand for borrowings in general. For example, certain of our customers that are large exporters, suffered significant losses in connection with hedging positions with respect to the U.S. dollar when the *real* began to decline in value against the U.S. dollar in 2008. These losses could impact such customers' ability to repay or refinance their debt obligations to us. If our customers fail to perform their obligations under their contracts with us where the customers are counterparty (for instance, derivatives contracts), the failure or inability of our customers to perform their payment obligations under those contracts could have a material adverse effect on us.

Despite the extensive government and central bank intervention to prevent the failure of the global financial system and the partial recovery of the financial system, the final impacts of such intervention are unknown. Global investor confidence is beginning to recover and additional disruption and volatility in the global financial markets could have further negative effects on the Brazilian financial and economic environment. In addition, a prolonged economic downturn would result in a general reduction in business activity and a consequent loss of income. Any such ongoing disruption or reduction in business activity could have an adverse effect on our business, financial condition and results of operations.

Risks Relating to the Notes

Holders of Notes with Sovereign Event or Credit Event provisions may be subject to certain additional risks.

In connection with Notes with Sovereign Event or Credit Event provisions, we may deliver Governmental Obligations, Credit Obligations or *reais*, as the case may be, to a São Paulo Paying Agent. Each holder will then be required to make arrangements, at its own cost and risk, to receive payments in *reais* or take delivery of the Governmental Obligations or the Credit Obligations. These arrangements may require the holder to open a demand deposit or securities account in Brazil. No assurance can be given as to whether the holder will be able to open such an account, any registration or other procedures that may be required to open any such account, or whether any taxes or fees will accrue or be payable by the holder as a result of opening such account. There can be no assurance as to whether legal recourse to the government of Brazil will exist or whether a market will exist for any such Governmental Obligations.

If a Sovereign Event or Credit Event occurs and we have opted to deliver Governmental Obligations or Credit Obligations, and are therefore prevented from delivering to the holders any Governmental Obligations or Credit Obligations, then our obligation to make the delivery shall be suspended until we are no longer prevented from making the delivery and holders will have no right either to call a default on the Notes or to sue for the undelivered Governmental Obligations or Credit Obligations. If such a condition occurs, there can be no assurance as to when, if ever, it will terminate.

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

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

Our obligations under the Notes will be subordinated to some Brazilian statutory obligations.

Under Brazilian law, our obligations under the Notes will be subordinated to certain statutory preferences. In the event of our liquidation, bankruptcy, insolvency, liquidation, dissolution, winding up or similar proceeding, certain claims, such as claims for salaries and wages of its employees (subject to limitations imposed by Brazilian law), claims deriving from transactions secured by collateral (e.g. mortgage or pledge), as well as taxes and court expenses, will have preference over any other claim, including the Notes.

An active trading market for the Notes may not develop.

While application may be made to list the Notes on the Official List of the Luxembourg Stock Exchange and for them to be admitted to trading on the Euro MTF market, there can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

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. 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.

USE OF PROCEEDS

The net proceeds from the sale of each issue of Notes under the Program will be used by Santander for general banking purposes or as set forth in the Final Terms applicable to the Notes.

CAPITALIZATION

The following table presents our consolidated capitalization as of December 31, 2009, as derived from our consolidated financial statements included elsewhere in this information memorandum. See "Presentation of Financial and Other Information."

At December 31, 2009, Santander complied with the capital adequacy requirements of the CMN, which adopted, with certain modifications, the methodology of the Basel Accord. Santander reported to the Central Bank its capital adequacy ratio at December 31, 2009 as 25.6% excluding goodwill. For a description of capital requirements applicable to Santander, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reserve and Lending Requirements."

Except as disclosed herein, there has been no material change in our total capitalization since December 31, 2009.

	At December 31, 2009(1)
	(R$ in millions)
Liabilities	
Financial liabilities held for trading	4,435
Other financial liabilities at fair value through profit or loss	2
Financial liabilities at amortized cost	203,568
Deposits from the Brazilian Central Bank	240
Deposits from credit institutions	20,956
Customer deposits	149,440
Marketable debt securities	11,439
Subordinated liabilities	11,305
Other financial liabilities	10,188
Hedging derivatives	10
Liabilities for insurance contracts	15,527
Provisions	9,480
Tax liabilities	9,457
Other liabilities	4,228
Total liabilities	**246,707**
Shareholders' equity	68,706
Minority interests	1
Valuation adjustments	559
Total capitalization	**315,973**

(1) Total capitalization corresponds to total liabilities plus total shareholders' equity.

EXCHANGE RATES

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

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely and, since then, the *real*/U.S. dollar exchange rate has fluctuated considerably. Until early 2003, the value of the *real* declined in relation to the U.S. dollar and then began to stabilize. The *real* appreciated against the U.S. dollar in 2004-2007. In 2008, as a result of the worsening of the world economic crisis, the *real* depreciated 32.0% against the U.S. dollar, and on December 31, 2008 the exchange rate of the *real* in relation to the U.S. dollar was R$2.3370 per US$1.00. On December 31, 2009, the *real*/U.S. dollar exchange rate was R$1.7412 per US$1.00. In the past, the Central Bank has intervened occasionally to control unstable movements of exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate through a currency band system or otherwise. The *real* may fluctuate against the U.S. dollar substantially in the future. For further information on these risks, see "Risk Factors—Risks Relating to Brazil—Exchange rate instability may have a material adverse effect on the Brazilian economy and Santander Brasil."

The following tables set forth the selling rate, expressed in *reais* per U.S. dollar (R$/US$), for the periods indicated:

Year	Period-end	Average(1)	Low	High
2005	2.3407	2.4341	2.1633	2.7621
2006	2.1380	2.1771	2.0586	2.3711
2007	1.7713	1.9483	1.7325	2.1556
2008	2.3370	1.8375	1.5593	2.5004
2009	1.7412	1.9958	1.6989	2.4473

Month	Period-end	Average(1)	Low	High
September 2009	1.7781	1.8198	1.7781	1.9038
October 2009	1.7440	1.7384	1.7037	1.7844
November 2009	1.7505	1.7262	1.6989	1.7640
December 2009	1.7412	1.7518	1.7310	1.7846
January 2010	1.8740	1.7790	1.7219	1.8740
February 2010	1.8102	1.8408	1.8038	1.8765
March 2010 (through March 16)	1.7658	1.7783	1.7629	1.7992

Source: Central Bank.

(1) Represents the average of the exchange rates on the closing of each business day during the period.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The unaudited pro forma consolidated financial information presented below is derived from the historical audited consolidated financial statements of Santander Brasil for the year ended December 31, 2008 and the historical audited combined financial statements of Banco Real for the period from January 1 to August 29, 2008, each included elsewhere in this information memorandum.

On July 24, 2008, Santander Spain acquired the indirect majority control of the ABN AMRO Real Group in Brazil. On August 29, 2008, as further described in note 26 to our consolidated financial statements, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. became our wholly-owned subsidiaries pursuant to a share exchange transaction (*incorporação de ações*) approved by the shareholders of Santander Brasil, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. As a result of the foregoing transactions, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. became wholly-owned subsidiaries of the Bank. See "Business—History—Banco Real Acquisition." The historical financial statements used to consolidate Banco Real beginning on August 30, 2008 reflect purchase accounting adjustments recorded on the date that Santander Spain acquired control of Banco Real since as from that date Banco Real came under common control with Santander Brasil. The unaudited pro forma consolidated financial information is based upon the historical audited consolidated financial statements and combined financial statements mentioned above, adjusted to give effect to the acquisition of Banco Real and the share exchange transaction (*incorporação de ações*) described above as if they had occurred on January 1, 2008. The unaudited pro forma consolidated financial information was prepared based on accounting practices under IFRS. The pro forma assumptions and adjustments are described in the accompanying notes presented below.

The unaudited pro forma consolidated financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Santander Brasil would have been had the acquisition and the share exchange transaction (*incorporação de ações*), occurred on the date assumed, nor is it necessarily indicative of the consolidated company's future consolidated results of operations or financial position.

The unaudited pro forma consolidated financial information does not include the anticipated realization of cost savings from any operating efficiencies, synergies or restructurings resulting from the integration of Banco Real and does not contemplate the liabilities that may be incurred in connection with the business combination and any related restructurings.

This unaudited pro forma consolidated financial information should be read in conjunction with the accompanying notes presented below and the historical consolidated financial statements and accompanying notes and combined financial statements and accompanying notes of Santander Brasil and Banco Real, respectively, included elsewhere in this information memorandum. You should not rely on the unaudited pro forma consolidated financial information as an indication of either (1) the consolidated results of operations or financial position that would have been achieved if the acquisition of Banco Real had taken place on the date assumed or (2) the consolidated results of operations or financial position of Santander Brasil after the completion of such transaction.

Pro Forma Income Statement Data For the Year Ended December 31, 2008

	Santander Brasil Consolidated Historical Financial Data	Banco Real Combined Historical Financial Data	Pro Forma Adjustments		Pro Forma Consolidated Financial Data
	For the Year Ended December 31, 2008	For the Period from January 1 to August 29, 2008	For the Year Ended December 31, 2008		For the Year Ended December 31, 2008
	(In millions of R$, except as otherwise indicated)				
Interest and similar income	23,768	14,007	327	4(i)	38,102
Interest expense and similar charges	(12,330)	(6,552)	11	4(ii)	(18,872)
Net interest income	**11,438**	**7,455**	**338**		**19,230**
Income from equity instruments	37	2	–		39
Share of results of entities accounted for using the equity method	112	193	–		305
Fee and commission income	4,809	2,040	–		6,849
Fee and commission expense	(555)	(428)	–		(983)
Gains/losses on financial assets and liabilities (net)	(1,287)	798	4		(485)
Exchange differences (net)	1,476	(215)	–		1,261
Other operating income (expenses)	(59)	(17)	2		(74)
Total income	**15,971**	**9,828**	**344**		**26,143**
Administrative expenses	(7,185)	(4,347)	–		(11,532)
Personnel expenses	(3,548)	(2,126)	–		(5,674)
Other general administrative expenses	(3,637)	(2,221)	–		(5,858)
Depreciation and amortization	(846)	(288)	(102)	4(iii)	(1,236)
Provisions (net)	(1,230)	(472)	–		(1,702)
Impairment losses on financial assets (net)	(4,100)	(2,470)	–		(6,570)
Impairment losses on other assets (net)	(77)	(8)	–		(85)
Gains/losses on disposal of assets not classified as non-current assets	7	25	–		32
Gains/losses on disposal of non-current assets held for sale	9	13	–		22
Profit before tax	**2,549**	**2,281**	**242**		**5,072**
Income tax	(170)	(907)	(82)	4(iv)	(1,159)
Profit for the year	**2,379**	**1,374**	**160**		**3,913**
Earnings per shares					
Basic and diluted earnings per 1,000 share (*reais*)					
Common shares	11.59				11.65
Preferred shares	12.75				12.81
Weighted average shares outstanding (in thousands) – basic and diluted					
Common shares	104,926,194				171,800,386
Preferred shares	91,168,064				149,283,961

See the accompanying notes to the unaudited pro forma consolidated financial information.

Notes to the unaudited pro forma consolidated financial information

1. Basis of Presentation

The unaudited pro forma consolidated financial information presented above is derived from the historical audited consolidated financial statements for the year ended December 31, 2008 of Santander Brasil and the historical audited combined financial statements of Banco Real for the period from January 1 to August 29, 2008, each included elsewhere in this information memorandum.

2. The Acquisition of Banco Real

On July 24, 2008, Santander Spain acquired majority control of the ABN AMRO Real Group in Brazil. On August 29, 2008, as further described in note 26 to our consolidated financial statements, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. became our wholly-owned subsidiaries pursuant to a share exchange transaction (*incorporação de ações*) approved by the shareholders of Santander Brasil, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. As a result of the foregoing transactions, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. became wholly-owned subsidiaries of the Bank. Banco Real was consolidated in Santander Brasil's financial statements as from August 30, 2008. See "Business—History—Banco Real Acquisition." The historical financial statements used to consolidate Banco Real on August 30, 2008 reflect purchase accounting adjustments recorded on the date that Santander Spain acquired control of Banco Real since as from that date Banco Real came under common control with Santander Brasil.

3. Pro Forma Assumptions and Adjustments

The following assumptions and related pro forma adjustments give effect to our incorporation of Banco Real as if the acquisition of Banco Real by the Santander Group and the share exchange transaction (*incorporação de ações*) described above had occurred on January 1, 2008 for purposes of the unaudited pro forma consolidated financial information.

- The unaudited pro forma consolidated financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Santander Brasil would have been had the acquisition of Banco Real occurred on the respective dates assumed, nor is it necessarily indicative of the combined company's future consolidated results of operations or financial position.

- Expected future cash cost savings, if any, are not recognized in this unaudited pro forma consolidated financial information.

- The pro forma adjustments include purchase price accounting adjustments to reflect the acquisition of Banco Real by Santander Spain, as if the control of Banco Real was acquired by Santander Spain on January 1, 2008. The purchase accounting was recorded using the acquisition method in accordance with International Financial Reporting Standard No. 3, "Business Combinations."

Additionally, liabilities may be incurred in connection with any ultimate restructuring activities. These additional liabilities and costs have not been contemplated in the unaudited pro forma consolidated financial information because information necessary to reasonably estimate such costs and to formulate detailed restructuring plans depends on the conclusion of assessments and studies which are still being prepared by Santander Brasil as of the date of this information memorandum.

The pro forma purchase price allocation adjustments are estimated based on the following purchase price allocation:

	Book Value	Fair Value(1)	Adjustment
		(In thousands of R$)	
Net assets acquired			
Assets	**132,301,795**	**130,930,255**	**(1,371,540)**
Of which:			
Cash and balances with central banks	12,147,982	12,147,982	–
Debt instruments	21,758,968	21,728,385	(30,583)
Loans and advances to customers	69,669,710	68,039,392	(1,630,318)
Tangible assets	1,072,896	1,344,375	271,479
Liabilities	**(119,436,124)**	**(120,826,655)**	**(1,390,531)**
Of which:			
Deposits from credit institutions	(20,946,768)	(20,932,165)	14,603
Customer deposits	(75,372,552)	(75,419,151)	(46,599)
Subordinated liabilities	(3,440,670)	(3,491,143)	(50,473)
Other financial liabilities	(5,974,858)	(5,852,833)	122,025
Provisions(2)	(3,536,049)	(4,968,623)	(1,432,574)
Net assets acquired	**12,865,671**	**10,103,600**	**(2,762,071)**
Intangible assets(3)		1,229,716	
Fair value of the assets		**11,333,316**	
Total consideration(4)		**38,946,426**	
Satisfied by:			
Shares		38,920,753	
Cash		25,673	
Goodwill		**27,613,110**	

(1) The fair values of the assets and liabilities acquired were determined based on appraisals for the tangible assets, consideration of advice provided by legal counsel for contingent liabilities in provisions, and discounted cash flow analysis for all other assets and liabilities, taking into consideration the expected future economic benefits of the intangible assets.
(2) Includes an adjustment of R$124.7 million booked in the year ended December 31, 2009 with respect to a revision in the fair value of provisions, as permitted under IFRS 3.
(3) Amount relates to customer list with an estimated useful life of 10 years.
(4) Total consideration is based on amounts paid by the Santander Group for the acquisition of Banco Real.

4. Pro forma adjustments

The purpose of the pro forma adjustments is to give the effect to the acquisition of Banco Real and the share exchange transaction (*incorporação de ações*) as if they had occurred on January 1, 2008. The pro forma adjustments for the year ended December 31, 2008 consider the period from January 1, 2008 to August 29, 2008, as the results for the remaining period of 2008 are already incorporated in the Bank's historical financial data.

(i) This pro forma adjustment relates to the unwinding of the fair value adjustments to debt instruments and loans and advances to customers, presented in the purchase price allocation in note 3 to the pro forma financial information, which were calculated separately for each individual contract. This results in an adjustment to the yield curve of the assets that were accounted for at amortized cost. The fair values of these contracts were below or above their book values depending on whether market rates of interest were above or below the contractual rates on the date of the acquisition. The unwinding of the difference between amortized cost and fair value is calculated based on the contractual maturities of each of the related financial instruments, which vary from 2008 to 2015.

For the pro forma income statement for the year ended December 31, 2008, the unwinding of the fair value adjustments to the debt instruments and loans and advances to customers is based on eight months of the amount which is expected to unwind during the year ended December 31, 2009, amounting to R$491 million.

(ii) This pro forma adjustment relates to the amortization of the fair value adjustment to financial liabilities, presented in the purchase price allocation in note 3 to the pro forma financial information, which was calculated separately for each individual contract. This results in an adjustment to the yield curve of the financial liabilities that were accounted for at amortized cost. The fair values of these contracts were below or above their book values depending on whether market rates of interest were above or below the contractual rates on the date of the acquisition. The unwinding of the difference between amortized cost and fair value is based on the contractual maturities of each of the related financial instruments, which vary from 2008 to 2015.

For the pro forma income statement for the year ended December 31, 2008, the unwinding of the fair value adjustments to financial liabilities is based on eight months of the amount which is expected to unwind during the year ended December 31, 2009, amounting to R$16 million.

(iii) The pro forma adjustment relates to the amortization of the fair value adjustment to tangible assets and the amortization of the identifiable and measurable intangible assets recognized in the purchase price allocation, which are presented in note 3 to the pro forma financial information, using the estimated useful lives of such assets. This adjustment principally relates to the amortization of the customer list recognized in connection with the purchase price allocation which has an estimated useful life of 10 years and the amortization of the tangible assets (buildings for own use), which have an estimated average useful life of 25 years.

For the pro forma income statement for the year ended December 31, 2008, the amortization for the tangible and amortizable intangible assets is based on eight months of the R$152 million amortization for 2009.

(iv) This pro forma adjustment reflects the recognition of deferred taxes recognized in the purchase price allocation due to the realization of the amounts in which fair value differed from cost for certain assets and liabilities as shown in the table above. Such realization of deferred taxes is calculated on the pro forma adjustments explained above, based on a 34.0% tax rate.

SELECTED STATISTICAL INFORMATION

The following information for Santander Brasil is included for analytical purposes and is derived from and should be read in conjunction with the financial statements contained elsewhere herein as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Average annual balance sheet data has been calculated based upon the average of the monthly balances at 13 dates: at December 31 of the prior year and each of the month-end balances of the 12 subsequent months. Average income statement and balance sheet data and other related statistical information for Santander Brasil have been prepared on a consolidated annual basis. As from August 30, 2008, our consolidated financial information includes data of Banco Real. We believe that the average data set forth herein accurately reflect in all material respects our financial condition and results of operations at the dates and for the periods specified.

The selected statistical information set forth below includes information at and for the years ended December 31, 2006 and 2005 derived from unaudited financial statements prepared in accordance with Brazilian GAAP. See "Presentation of Financial and Other Information." Because of the material differences in criteria and presentation between Brazilian GAAP and IFRS, such information is not comparable with the selected statistical data at and for the years ended December 31, 2009, 2008 and 2007. For a discussion of such differences, see note 45 to our financial statements. Accordingly, differences between amounts at and for the years ended December 31, 2006 and 2005 and the amounts at and for the years ended December 31, 2009, 2008 and 2007 may be due to differences between Brazilian GAAP and IFRS as well as the evolution of our financial condition and results of operations during these years.

Average Balance Sheet and Interest Rates

The following tables show our average balances and interest rates for each of the periods presented. With respect to the tables below and the tables under "—Changes in Net Interest Income—Volume and Rate Analysis" and "—Assets—Earning Assets—Yield Spread", (1) we have stated average balances on a gross basis, before netting our allowances for credit losses, except for the total average asset figures, which include such netting and (2) all average data have been calculated using month-end balances, which is not significantly different from having used daily averages. We stop accruing interest on loans once they are more than 60 days past due. All our non-accrual loans are included in the table below under "other assets."

	IFRS At December 31,								
	2009			2008			2007		
	Average Balance	Interest	Average Rate(1)	Average Balance	Interest	Average Rate(1)	Average Balance	Interest	Average Rate(1)
Assets and Interest Income	(in millions of R$, except percentages)								
Cash and balances with the Brazilian Central Bank	17,879	1,667	9.3%	19,102	2,270	11.9%	15,717	1,894	12.0%
Loans and advances to credit institutions	31,122	2,901	9.3%	17,390	1,819	10.5%	8,788	701	8.0%
Loans and advances to customers	126,712	29,470	23.3%	72,178	16,297	22.6%	39,922	8,047	20.2%
Debt instruments	45,530	5,202	11.4%	22,543	3,327	14.8%	19,084	2,166	11.3%
Other interest-earning assets	–	103	–	–	55	–	–	389	–
Total interest-earning assets	**221,243**	**39,343**	**17.8%**	**131,213**	**23,768**	**18.1%**	**83,511**	**13,197**	**15.8%**
Equity instruments	7,746	30	0.4%	2,250	37	1.6%	3,254	36	1.1%
Investments in affiliated companies	506	–	–	255	–	–	46	–	–
Total earning assets	**229,495**	**39,373**	**17.2%**	**133,718**	**23,805**	**17.8%**	**86,811**	**13,233**	**15.2%**
Cash and balances with the Brazilian Central Bank	6,250	–	–	3,618	–	–	2,440	–	–
Due from credit entities	3,152	–	–	677	–	–	853	–	–
Impairment losses	(8,765)	–	–	(4,272)	–	–	(2,196)	–	–
Others assets	33,007	–	–	16,488	–	–	10,060	–	–
Tangible assets	3,690	–	–	1,977	–	–	1,022	–	–
Intangible assets	31,345	–	–	11,415	–	–	1,253	–	–
Total average assets	**298,174**	**39,373**	**13.2%**	**163,621**	**23,805**	**14.5%**	**100,243**	**13,233**	**13.2%**

	IFRS For the year ended December 31,								
	2009			2008			2007		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Liabilities and Interest Expense	(in millions of R$, except percentages)								
Deposits from the Brazilian Central Bank	845	29	3.5%	14	–	–	–	–	–
Deposits from credit institutions	21,474	1.179	5.5%	21,411	1,631	7.6%	18,169	1,362	7.5%
Customer deposits	139,917	13,164	9.4%	75,816	9,146	12.1%	44,507	4,709	10.6%
Marketable debt securities	11,420	1,048	9.2%	6,331	549	8.7%	2,348	277	11.8%
Subordinated liabilities	10,676	1,077	10.1%	5,883	690	11.7%	4,180	452	10.8%
Other interest-bearing liabilities	–	679	–	–	314	–	–	202	–
Total interest-bearing liabilities	**184,332**	**17,176**	**9.3%**	**109,455**	**12,330**	**11.3%**	**69,204**	**7,002**	**10.1%**
Deposits from credit entities	100	–	–	80	–	–	67	–	–
Customer deposits – demand deposits	13,000	–	–	7,112	–	–	4,665	–	–
Others liabilities	44,546	–	–	23,863	–	–	15,785	–	–
Minority interest	4	–	–	1	–	–	–	–	–
Shareholders' equity	56,192	–	–	23,110	–	–	10,522	–	–
Total average liabilities and shareholders' equity	**298,174**	**17,176**	**5.8%**	**163,621**	**12,330**	**7.6%**	**100,243**	**7,002**	**7.6%**

Changes in Net Interest Income—Volume and Rate Analysis

The following tables allocate the changes in our net interest income between changes in average volume and changes in average rate for the year ended December 31, 2009 compared to the year ended December 31, 2008 and for the year ended December 31, 2008 compared to the year ended December 31, 2007. We have calculated volume variances based on movements in average balances over the period and rate variance based on changes in interest rates on average interest-earning assets and average interest-bearing liabilities. We have allocated variances caused by changes in both volume and rate to volume. You should read the following tables and the footnotes thereto in light of our observations noted in "—Average Balance Sheet and Interest Rates."

	IFRS For the year ended 2009/2008		
	Increase (decrease) due to changes in		
	Volume	Rate	Net change
Interest and Similar Revenues	(in millions of R$)		
Interest-earning assets			
Cash and due from central banks	(138)	(465)	(603)
Due from credit entities	1,299	(216)	1,083
Loans and credits	12,669	505	13,174
Debt securities	2,765	(891)	1,874
Other interest-earning assets	49	–	49
Total interest-earning assets	**16,664**	**(1,067)**	**15,577**
Investments in equity securities	38	(45)	(7)
Total earning assets	**16,682**	**(1,112)**	**15,570**

	IFRS For the year ended 2009/2008		
	Increase (decrease) due to changes in		
	Volume	Rate	Net change
Interest and Similar Expenses	(in millions of R$)		
Interest-bearing liabilities			
Deposits from central bank	29	–	29
Due to credit entities	5	(456)	(451)
Customer deposits	6.382	(2.364)	4.018
Marketable debt securities	465	34	499
Subordinated debt	495	(108)	387
Other interest-bearing liabilities	366	–	366
Total interest-bearing liabilities	**7.742**	**(2,984)**	**4,848**

	IFRS 2008/2007 Increase (decrease) due to changes in		
	Volume	Rate	Net change
Interest and Similar Revenues	(in millions of R$)		
Interest-earning assets			
Cash and due from central banks	403	(26)	377
Due from credit entities	848	269	1,117
Loans and credits	7,182	1,067	8,249
Debt securities	437	724	1,161
Other interest-earning assets	(334)	–	(334)
Total interest-earning assets	**8,536**	**2,034**	**10,570**
Investments in equity securities	(13)	14	1
Total earning assets	**8,523**	**2,048**	**10,571**

	IFRS 2008/2007 Increase (decrease) due to changes in		
	Volume	Rate	Net change
Interest and Similar Expenses	(in millions of R$)		
Interest-bearing liabilities			
Due to credit entities	246	22	268
Customer deposits	3,700	737	4,437
Marketable debt securities	362	(90)	272
Subordinated debt	197	41	238
Other interest-bearing liabilities	112	–	112
Total interest-bearing liabilities	**4,617**	**710**	**5,327**

Assets

Earning Assets—Yield Spread

The following tables analyze our average earning assets, interest income and dividends on equity securities and net interest income and shows gross yields, net yields and yield spread for each of the periods indicated. You should read this table and the footnotes thereto in light of our observations noted in "—Average Balance Sheet and Interest Rates."

	IFRS For the years ended December 31,		
	2009	2008	2007
	(in millions of R$, except percentages)		
Average earning assets	229,495	133,718	86,811
Interest and dividends on equity securities(1)	39,373	23,805	13,233
Net interest income	22,167	11,438	6,195
Gross yield(2)	17.2%	17.8%	15.2%
Net yield(3)	9.7%	8.6%	7.2%
Yield spread(4)	7.8%	6.5%	5.1%

(1) Dividends on equity securities include dividends from companies accounted for by the equity method.
(2) Gross yield is the quotient of interest and dividends on equity securities divided by average earning assets.
(3) Net yield is the quotient of net interest income (that includes dividends on equity securities) divided by average earning assets.
(4) Yield spread is the difference between gross yield on earning assets and the average cost of interest-bearing liabilities.

Return on Equity and Assets

The following tables present our selected financial ratios for the periods indicated.

	IFRS For the years ended December 31,		
	2009	2008	2007
ROA: Return on average total assets	1.8%	1.5%	1.9%
ROE: Return on average shareholders' equity	9.8%	10.3%	18.1%
Average shareholder's equity as a percentage of average total assets	**18.8%**	**14.1%**	**10.5%**
Payout(1)	**26.8%**	**35.8%**	**66.2%**

(1) Divided payout ratio (dividends declared per share divided by net income per share).

Interest-Earning Assets

The following table shows the percentage mix of our average interest-earning assets for the years indicated. You should read this table in light of our observations noted in "— Average Balance Sheet and Interest Rates."

	IFRS For the years ended December 31,		
	2009	2008	2007
Cash and due from central banks	8.1%	14.6%	18.8%
Due from credit entities	14.1%	13.3%	10.5%
Loans and credits	57.2%	54.9%	47.8%
Debt securities	20.6%	17.2%	22.9%
Total interest-earning assets	**100.0%**	**100.0%**	**100.0%**

Loans and Advances to Credit Institutions

The following tables show our short-term funds deposited with other banks at each of the dates indicated.

	IFRS As of December 31,		
	2009	2008	2007
		(in millions of R$)	
Time deposits	9,945	10,703	1,861
Reverse repurchase agreements	6,160	4,583	739
Escrow deposits	6,192	6,201	2,629
Foreign currency investments	3,493	10,689	679
Other accounts	412	1,563	1,377
Total	**26,202**	**33,739**	**7,285**

Investment Securities

At December 31, 2009, the book value of the investment securities was R$75.5 billion (representing 23.9% of our total assets). Brazilian government securities totaled R$54.6 billion, or 72.2%, of our investment securities at December 31, 2009. For a discussion of how the investment securities are valuated, see notes 6 and 7 to the financial statements.

The following tables analyze the maturities and weighted average yields of our debt investment securities (before impairment allowances) at December 31, 2009. Yields on tax-exempt obligations have not been calculated on a tax-equivalent basis because we do not believe the effect of such a calculation would be material.

	IFRS At December 31,		
	2009	2008	2007
	(in millions of R$)		
Debt securities			
Brazilian government securities	54,581	37,493	14,338
Other domestic issuers	2,960	2,132	1,092
Total domestic	57,541	39,625	15,430
Less-allowance for credit losses	(30)	(29)	(14)
Total debt securities	57,511	39,596	15,416
Equity securities			
Equity securities	17,992	1,923	2,959
Less-price fluctuation allowance	–	–	–
Total equity securities	**17,992**	**1,923**	**2,959**
Total investment securities	**75,503**	**41,520**	**18,374**

As of December 31, 2009 and 2008, we held no securities of single issuers or related group of companies whose aggregate book or market value exceed 10% of stockholders' equity, other than the Brazilian government securities, which represented 79.4% of the stockholders' equity. Total debt securities aggregated values near 83.7% of the stockholders' equity.

The following table analyzes the maturities and weighted average yields of our debt investments securities (before impairment allowance at December 31, 2009). Yields on tax-exempt obligations have not been calculated on a tax equivalent basis because the effect on such calculation is not material.

	IFRS At December 31, 2009					
	Maturing within 1 year	Maturing between 1 and 5 years	Maturing between 5 and 10 years	Maturing after 10 years	Total	Average Yield
	(in millions of R$)					
Debt Securities						
Brazilian government	15,781	32,442	2,443	3,915	54,581	10.9%
Other domestic issuers	283	1,359	1,181	137	2,960	8.7%
Total debt investment securities	**16,064**	**33,801**	**3,624**	**4,052**	**57,541**	**10.8%**

Loan Portfolio

At December 31, 2009, our total loans and advances to customers equaled R$138.4 billion (43.8% of our total assets). Net of allowances for credit losses, loans and advances to customers equaled R$128.3 billion at December 31, 2009 (40.6% of our total assets at December 31, 2009). In addition to loans, we had outstanding at December 31, 2009, 2008 and 2007 R$77.8 billion, R$68.8 billion and R$19.6 billion, respectively, of undrawn balances available to third parties.

Types of Loans by Type of Customer

Substantially all of our loans are to borrowers domiciled in Brazil and are denominated in *reais*. The following tables analyze our loans and advances to customers (including securities purchased under agreements to resell), by type of customer loan, at each of the dates indicated. For each category of loan, we maintain specific risk management policies in line with the standards of the Santander Group and as managed and monitored by our board of directors through the risk committee. Our credit approval processes for each category of loan are structured primarily around our business segments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management" for details on our credit approval policies for retail and wholesale lending.

We have a diversified loan portfolio with no specific concentration exceeding 10% of total loans.

	IFRS At December 31,		
	2009	2008	2007
	(in millions of R$)		
Commercial, financial and industrial(1)	69,301	76,407	32,879
Real estate-construction(2)	3,828	2,469	301
Real estate-mortgage(3)	5,226	4,472	1,692
Installment loans to individuals(4)	47,037	46,857	16,178
Lease financing(5)	13,002	12,444	402
Total loans and leases, gross(6)	**138,394**	**142,649**	**51,452**
Allowance for possible loan losses	(10,070)	(8,181)	(2,249)
Loans and leases, net of allowances	**128,324**	**134,468**	**49,203**

(1) Includes primarily loans to small and medium-sized businesses, or SMEs, in our Commercial Banking segment, and to Global Banking & Markets, or GB&M, corporate and business enterprise customers in our Wholesale Global Banking segment. The principal products offered to SMEs in this category include revolving loans, overdraft facilities, installment loans, working capital and equipment finance loans. Credit approval for SMEs is based on customer income, business activity, collateral coverage and internal and external credit scoring tools. Collateral on commercial, financial and industrial lending to SMEs generally includes receivables, liens, pledges, guarantees and mortgages, with coverage generally ranging from 100% to 150% of the loan value depending on the risk profile of the loan. Our Wholesale Global Banking customers are offered a range of loan products ranging from typical corporate banking products (installment loans, working capital and equipment finance loans) to more sophisticated products (derivative and capital markets transactions). As Wholesale Global Banking customers tend to be larger businesses, credit approval is based on customer credit quality as evaluated by a specialized team of risk analysts taking account of, among other things, business revenues and credit history of each customer. Underwriting policies for this category of loans to our Wholesale Global Banking customers are focused on the type of guarantee or collateral provided. Certain loans (BNDES products) are generally secured by liens on financed machinery and equipment, though guarantees may also be provided as additional security.

(2) Includes construction loans made principally to real estate developers that are SMEs and corporate customers in our Wholesale Global Banking Segment. Credit approval is carried out by a specialized team of risk analysts which follows a specific set of underwriting standards and analysis of each customer based on, among other things, business revenues and credit history. Loans in this category are generally secured by mortgages and receivables, though guarantees may also be provided as additional security.

(3) Includes loans on residential real estate to individuals. Credit approval policies in this category are determined by reference to the type of lending product being offered, the type and location of the real estate, the revenue or income of the business or customer, respectively, requesting the loan and internal and external credit scoring information. All loans granted under this category are secured by the financed real estate. Loan to value ratios for loans in this category are generally limited to 80% and the average loan to value ratio for new loans is approximately between 50% and 60%.

(4) Consists primarily of unsecured personal installment loans (including loans, the payments for which are automatically deducted from a customer's payroll), revolving loans, overdraft facilities, consumer finance facilities and credit cards. Credit approval in this category is based on individual income, debt to income ratio and internal and external credit scoring models. Credit approval for many of these types of loans is based on automatic scoring models, with pre-set lending limits based on credit scores. For example, the maximum lending amount on revolving loans and overdraft facilities may vary from between 50% and 250% of an individual's monthly income, depending on the specific product and credit score of the individual.

(5) Includes primarily automobile leases and loans to individuals. Credit approval is based both on an automatic scoring model using external credit scores and on evaluation by our branch personnel following our risk management policies. The vehicle financed acts as collateral for the particular loan granted.

(6) Includes the debit balances (financial assets) of all the credit and loans granted by the Bank, including money market operations through central counterparties, except for credit of any nature in the name of credit institutions or those represented by securities.

	Brazilian GAAP	
	At December 31,	
	2006	2005
	(in millions of R$)	
Commercial, financial and industrial	23,571	18,186
Real estate	1,232	1,009
Installment loans to individuals	12,303	9,297
Lease financing	403	490
Total loans and leases, gross(1)	**37,509**	**28,982**
Allowance for possible loan losses	(1,622)	(1,197)
Loans and leases, net of allowances	**35,887**	**27,785**

(1) Includes all loans granted by the Bank, considered as credit portfolio under Central Bank Resolution No. 2,682. Certain assets accounted for as loans under IFRS are not so accounted under Brazilian GAAP.

Maturity

The following tables set forth an analysis by maturity of our loans and advances to customers by type of loan at December 31, 2009.

	IFRS							
	Maturity							
	Less than one year		One to five years		Over five years		Total	
	Balance	% of Total	Balance	% of Total	Balance	% of Total	Balance	% of Total
	(in millions of R$, except percentages)							
Commercial, financial and industrial	41,298	56.2%	26,125	43.9%	1,879	35.1%	69,302	50.1%
Real estate	2,706	3.7%	3,496	5.9%	2,852	53.2%	9,054	6.5%
Installment loans to individuals	23,718	32.3%	22,698	38.1%	621	11.6%	47,037	34.0%
Lease financing	5,766	7.8%	7,231	12.1%	4	0.1%	13,001	9.4%
Total loans and leases, gross	**73,488**	**100.0%**	**59,550**	**100.0%**	**5,356**	**100.0%**	**138,394**	**100.0%**

Fixed and Variable Rate Loans

The following table sets forth a breakdown of our fixed and variable rate loans having a maturity of more than one year at December 31, 2009.

	Fixed and variable rate loans having a maturity of more than one year
	(in millions of R$)
Fixed rate	45,080
Variable rate	19,826
Total	**64,906**

Cross-Border Outstandings

The following table sets forth, at the dates indicated, the aggregate amount of our cross-border outstandings (which consist of loans, interest-bearing deposits with other banks, acceptances and other monetary assets denominated in a currency other than the home-country currency of the office where the item is booked) where outstandings in the borrower's country exceeded 0.75% of our total assets. Cross-border outstandings do not include local currency loans made by subsidiary banks in other countries to the extent that such loans are funded in the local currency or hedged. As a result, they do not include the majority of the loans by our Cayman branch, which are fully hedged.

	IFRS As of December 31,					
	2009		2008		2007	
	Balance	% of Total Assets	Balance	% of Total Assets	Balance	% of Total Assets
	(in millions of R$, except percentages)					
OECD countries(1)						
Austria	571	0.2%	4,937	1.7%	–	0.0%
Spain	1,289	0.4%	3,734	1.3%	1,630	1.5%
United States	2,383	0.8%	1,288	0.4%	273	0.3%
Other OECD countries(2)	673	0.2%	1,495	0.5%	577	0.5%
Total OECD	4,916	1.6%	11,454	3.9%	2,480	2.3%
Non-OECD countries						
Latin American countries(2)	79	0.0%	147	0.1%	264	0.2%
Ilhas Cayman	3,615	1.1%	–	0.0%	–	0.0%
Other(2)	258	0.1%	2,182	0.7%	388	0.4%
Total non-OECD	3,952	1.2%	2,329	0.8%	652	0.60%
Total	**8,868**	**2.8%**	**13,783**	**4.7%**	**3,132**	**2.9%**

(1) The Organization for Economic Cooperation and Development.
(2) Aggregate outstandings in any single country in this category do not exceed 0.75% of our total assets.

The following table sets forth the amounts of our cross-border outstandings at December 31, 2009, 2008 and 2007 by type of borrower where outstandings in the borrower's country exceeded 0.75% of total assets.

	IFRS				
	Government	Banks and Other Financial Institutions	Commercial and Industrial	Other Loans	Total
	(in millions of R$)				
2007					
Spain	–	1,625	5	–	1,630
Total	**–**	**1,625**	**5**	**–**	**1,630**
2008					
Austria	401	–	4,536	–	4,937
Spain	–	3,730	4	–	3,734
Total	**401**	**3,730**	**4,540**	**–**	**8,671**
2009					
United States	–	2,239	–	144	2,383
Ilhas Cayman	496	–	3,075	44	3,615
Total	**496**	**2,239**	**3,075**	**188**	**5,998**

Movements in Allowances for Credit Losses

The following tables analyze movements in our allowances for credit losses for the periods indicated. For further discussion of movements in the allowances for credit losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008 – Impairment Losses on Financial Assets (Net)" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007—Impairment Losses on Financial Assets (Net)."

	IFRS For the years ended December 31,		
	2009	**2008**	**2007**
		(in millions of R$)	
Balance beginning of period	8,181	2,249	2,170
Acquired companies	–	4,717	–
Net additions	10,520	4,534	2,474
Charge offs	(8,631)	(3,319)	(2,395)
Balance end of period	**10,070**	**8,181**	**2,249**

	Brazilian GAAP Year Ended December 31,	
	2006	**2005**
	(in millions of R$)	
Balance beginning of period	1,197	916
Net additions	1,522	817
Charge offs	(1,097)	(539)
Other	–	3
Balance end of period	**1,622**	**1,197**

The tables below show a breakdown of recoveries, net provisions and charge-offs against credit loss allowance by type and domicile of borrower for the periods indicated.

	IFRS For the year ended December 31,		
	2009	**2008**	**2007**
		(in millions of R$)	
Recoveries of loans previously charged off(1)	**537**	**430**	**294**
Commercial, financial and industrial	42	144	101
Real estate – mortgage	58	29	11
Installment loans to individuals	420	246	163
Lease finance	17	11	19
Acquired companies	**–**	**4,717**	**–**
Commercial, financial and industrial	–	1,988	–
Real estate – mortgage	–	48	–
Installment loans to individuals	–	2,610	–
Lease finance	–	71	–
Net provisions for credit losses(1)	**10,521**	**4,533**	**2,474**
Commercial, financial and industrial	3,072	1,452	261
Real estate – mortgage	28	26	6
Installment loans to individuals	7,198	2,951	2,180
Lease finance	223	104	27
Charge-offs against credit loss allowance	**(8,631)**	**(3,319)**	**(2,395)**
Commercial, financial and industrial	(3,073)	(739)	(310)
Real estate – mortgage	(31)	(13)	(7)
Installment loans to individuals	(5,377)	(2,513)	(2,028)
Lease finance	(150)	(54)	(50)

(1) Impairment losses on financial assets, net, as reported in our consolidated financial statements, reflect net provisions for credit losses less recoveries of loans previously charged off.

	Brazilian GAAP	
	As of December 31,	
	2006	2005
	(in millions of R$)	
Recoveries of loans previously charged off	**355**	**210**
Commercial, financial and industrial	147	74
Real estate-mortgage	15	9
Installment loans to individuals	175	111
Lease finance	18	16
Acquired companies	–	–
Commercial, financial and industrial	–	–
Real estate-mortgage	–	–
Installment loans to individuals	–	–
Lease finance	–	–
Net provisions for credit losses	**1,522**	**817**
Commercial, financial and industrial	376	162
Real estate-mortgage	13	(5)
Installment loans to individuals	1,087	635
Lease finance	46	25
Charge offs against credit loss allowance	**(1,098)**	**(538)**
Commercial, financial and industrial	(227)	(145)
Real estate-mortgage	(13)	(7)
Installment loans to individuals	(833)	(362)
Lease finance	(25)	(24)

The tables below show a breakdown of allowances for credit losses by type of borrowers and the percentage of loans in each category as a share of total loans at the date indicated.

	IFRS					
	At December 31,					
	2009	% of total loans	2008	% of total loans	2007	% of total loans
	(in millions of R$, except percentages)					
Borrowers						
Commercial and industrial	3,386	52.8%	3,387	55.3%	686	64.5%
Mortgage loans	90	3.8%	94	3.1%	33	3.3%
Installment loans to individuals	6,336	34.0%	4,515	32.9%	1,467	31.4%
Lease financing	258	9.4%	185	8.7%	63	0.8%
Total	**10,070**	**100.0%**	**8,181**	**100.0%**	**2,249**	**100.0%**

	Brazilian GAAP			
	Year Ended December 31,			
	2006	% of total loans	2005	% of total loans
	(in millions of R$, except percentages)			
Borrowers				
Commercial and industrial	432	62.9%	282	62.8%
Mortgage loans	20	3.3%	20	3.5%
Installment loans to individuals	1,102	32.8%	848	32.0%
Lease financing	68	1.0%	47	1.7%
Total	**1,622**	**100.0%**	**1,197**	**100.0%**

Impaired Assets

The following tables show our impaired assets, excluding country-risk.

	IFRS At December 31,		
	2009	2008	2007
	(in millions of R$, except percentages)		
Non-performing assets			
Past-due and other non-performing assets(1)	9,899	7,730	2,093
Non-performing loans as a percentage of total loans	7.2%	5.4%	4.1%
Net loan charge-offs as a percentage of total loans	6.2%	2.3%	4.7%

(1) Includes at December 31, 2009, R$484 million of doubtful loans (2008 - R$1,260 million and 2007 - R$66 million) of doubtful loans that were not past-due and therefore were accounted for on an accrual basis. In the period ended December 31, 2009, the amount of interest owed on non-accruing assets that would have been recorded had such assets accrued interest from January 1, 2009 would have been R$982 million. In 2008, the amount of interest on non-accruing assets that would have been recorded had such assets accrued interest from January 1, 2008 would have been R$658 million. No loan that was more than 60 days past due was accounted for on an accrual basis.

	Brazilian GAAP As of December 31,	
	2006	2005
	(in millions of R$)	
Non-performing assets		
Past-due and other non-performing assets	1,796	1,225
Non-performing loans as a percentage of total loans	4.8%	4.2%
Net loan charge-offs as a percentage of total loans	2.9%	1.9%

Evolution of Impaired Assets

The following tables show the movement in our impaired assets (excluding country risk).

	IFRS At December 31,		
	2009	2008	2007
	(in millions of R$)		
Opening balance	7,730	2,093	2,010
Net additions	10,800	5,035	2,478
Writeoffs	(8,631)	(3,319)	(2,395)
Increase in scope of consolidation	–	3,921	–
Closing balance	**9,899**	**7,730**	**2,093**

	Brazilian GAAP As of December 31,	
	2006	2005
	(in millions of R$)	
Opening balance	1,225	951
Net additions	1,668	813
Writeoffs	(1,097)	(539)
Closing balance	**1,796**	**1,225**

The international financial turmoil, initiated in the second half of 2008, negatively impacted the steady growing of credit risk portfolio observed over the last years in the Brazilian financial market. The economic effects such as demand restrictions, decrease on industrial production, unemployment growth and consumption downturn, brought severe restrictions to credit offer and quality deterioration of the existing credit portfolio.

From a portfolio perspective, all the credit admission policies were reviewed in order to become more restricted, whilst allowing the choice of clients with profiles closer to the corporate credit risk policy.

Starting in the last quarter of 2008, we have aligned our risk policies with those from Banco Real, which impacted the evolution of net provision for credit losses expenses on that period and on the first quarter of 2009.

Non-performing assets increased R$2.2 billion, or 28%, in the year ended in December 31, 2009, compared to the year ended on December 31, 2008. The main increase occurred on individuals portfolio, with figures of R$807 million, or 37%, of increase.

Otherwise, at the end of the fourth quarter of 2009 non-performing assets and default rates decreased when compared to the end of the third quarter of 2009, showing signs of enhancements of our credit portfolio, disregarding the sazonality low default rates, usual on this period. The following table sets forth our non-performing assets by type of loan for each of the dates indicated.

	IFRS		
	At December 31,		
	2009	2008	2007
	(in millions of R$)		
Impaired assets			
Commercial, financial and industrial	3,618	2,730	502
Real estate – mortgage	109	74	23
Installment loans to individuals	5,335	4,528	1,558
Lease financing	837	398	10
Total	**9,899**	**7,730**	**2,093**

Impaired Asset Ratios

The following tables show the ratio of our impaired assets to total computable credit risk and our coverage ratio at the dates indicated.

	IFRS		
	At December 31,		
	2009	2008	2007
	(in millions of R$, except percentages)		
Computable credit risk(1)	159,362	164,695	64,558
Non-performing assets	9,899	7,730	2,093
Allowances for credit losses	10,070	8,181	2,249
Ratios			
Non-performing assets to computable credit risk	6.2%	4.7%	3.2%
Coverage ratio(2)	101.7%	105.8%	107.5%

(1) Computable credit risk is the sum of the face amounts of loans and leases (including non-performing assets but excluding country risk loans), guarantees and documentary credits.
(2) Allowances for non-performing assets as a percentage of non-performing assets.

	Brazilian GAAP	
	At December 31,	
	2006	2005
	(in millions of R$)	
Computable credit risk(1)	37,509	28,982
Non-performing assets	1,796	1,225
Allowances for credit losses	1,622	1,197
Ratios		
Non-performing assets to computable credit risk	4.8%	4.2%
Coverage ratio(2)	90.3%	97.7%

(1) Computable credit risk is the sum of the face amounts of loans and leases (including non-performing assets but excluding country risk loans), guarantees and documentary credits.
(2) Allowances for non-performing assets as a percentage of non-performing assets.

Foreclosed Assets

The following tables show the movements in our foreclosed assets at the dates indicated.

	IFRS		
	As of December 31,		
	2009	2008	2007
	(in millions of R$, except percentages)		
Opening balance	291	193	207
Foreclosures	229	167	73
Sales	(183)	(166)	(87)
Acquired companies	19	97	–
Gross foreclosed assets	356	291	193
Allowances established	(184)	(178)	(161)
Allowance as a percentage of foreclosed assets	51.7%	61.2%	83.4%
Closing balance (net)	**172**	**113**	**32**

Liabilities

Deposits

The principal components of our deposits are customer demand, time and notice deposits, and international and domestic interbank deposits. Our retail customers are the principal source of our demand, time and notice deposits.

The following tables analyze our deposits at the dates indicated.

	IFRS		
	At December 31,		
	2009	2008	2007
	(in millions of R$)		
Deposits from central banks and credit institutions			
Time deposits	20,838	26,721	11,949
Other demand accounts	195	66	61
Repurchase agreements	164	31	6,834
Total	**21,197**	**26,818**	**18,844**
Customer deposits			
Current accounts	15,140	15,298	6,588
Savings accounts	25,216	20,643	6,288
Other demand deposits	–	–	26
Time deposits	74,634	88,880	26,028
Repurchase agreements	34,450	30,674	16,281
Total	**149,440**	**155,495**	**55,211**
Total deposits	**170,637**	**182,313**	**74,055**

The following tables show the maturity of time deposits (excluding inter-bank deposits) in denominations of $100,000 or more at the dates indicated. Large denomination customer deposits may be a less stable source of funds than demand and savings deposits.

	IFRS	
	As of December 31, 2009	
	Domestic	International
	(in millions of R$)	
Under 3 months	7,876	2,435
3 to 6 months	7,011	–
6 to 12 months	10,359	–
Over 12 months	20,013	2
Total	**45,259**	**2,437**

Short-Term Borrowings

The following tables show our short-term borrowings consisting of Brazilian government securities that we sold under agreements to repurchase for purpose of funding our operations.

	As of December 31,					
	2009		2008		2007	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
	(in millions of *reais*, except percentages)					
Securities sold under agreements to repurchase (principally Brazilian government securities)						
At December, 31	34,614	9.9%	30,706	13.6%	23,115	11.2%
Average during the period	32,493	11.5%	19,639	12.0%	21,567	11.0%
Maximum month-end balance	37,214		31,058		25,748	
Total short-term borrowings at year end	**34,614**		**30,706**		**23,115**	

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

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements as of and for the years ended December 31, 2009, 2008 and 2007 and the related notes thereto, and with the financial information presented under the section entitled "Selected Financial and Operating Data" included elsewhere in this information memorandum. 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 information memorandum. Our financial statements as of and for the years ended December 31, 2009, 2008 and 2007, together with the report of our independent registered public accounting firm, included in this information memorandum have been prepared in accordance with IFRS. Our results of operations for periods ended December 31, 2008 and thereafter are not comparable to the respective periods prior to that date because of the consolidation of Banco Real as from August 30, 2008. See "—Acquisition of Banco Real".

Overview

We are a leading full-service bank in Brazil, which we believe to be one of the most attractive markets in the world given its growth potential and low penetration rate of banking products and services. We are the third largest private bank in Brazil, according to the Central Bank, with a 9.2% market share in terms of assets, as of September 30, 2009 and the largest bank controlled by a major global financial group. Our operations are located across the country and strategically concentrated in the South and Southeast, an area that accounted for approximately 73.0% of Brazil's GDP in 2007, and where we have one of the largest branch networks of any Brazilian bank. For the year ended December 31, 2009, we generated net profit of R$5.5 billion, and at that date we had total assets of R$315.9 billion and total equity of R$69.2 billion. Our Basel capital adequacy ratio (excluding goodwill) was 25.6%.

We operate our business along three segments: Commercial Banking, Global Wholesale Banking and Asset Management and Insurance. Through our Commercial Banking segment, we offer traditional banking services, including checking and saving accounts, home and automobile financing, unsecured consumer financing, checking account overdraft loans, credit cards and payroll loans to mid- and high-income individuals and corporations (other than to our GB&M clients). Our Global Wholesale Banking segment provides sophisticated and structured financial services and solutions to a group of approximately 700 large local and multinational conglomerates, offering such products as global transaction banking, syndicated lending, corporate finance, equity and treasury. Through our Asset Management and Insurance segment we manage fixed income, money market, equity and multi-market funds and offer insurance products complementary to our core banking business to our retail and small- and medium-sized corporate customers.

Effects of the Global Financial Markets Crisis on our Financial Condition and Results of Operations

The global financial markets crisis has significantly affected the world economy since the second half of 2008. It has led to recessions and increasing unemployment in the world's leading economies, a reduction in investments on a global scale, a decrease in raw material prices and a sharp decline in credit availability and liquidity, as well as a general closure of the capital markets worldwide. In Brazil, however, the effects of the global financial markets crisis have been relatively moderate compared to those in the United States and Europe, and the Brazilian economy has experienced a rapid and strong recovery. After experiencing a 3.5% decrease in GDP in the last quarter of 2008 and a 0.9% decrease in GDP in the first quarter of 2009, GDP growth resumed in the second quarter of 2009, driven mostly by the strong domestic demand. The second, third and fourth quarters of 2009 had GDP increases of 1.4%, 1.7% and 2.0%, respectively. While some export-oriented companies in the raw material and certain other industries suffered revenue decreases due to decreased demand in the international markets in 2009, relatively strong domestic demand helped to reduce the impact of the global crisis on the Brazilian economy. Positive developments in the labor market and associated increases in the minimum wage, were the main drivers for the strong internal demand.

Brazilian banks are funded almost entirely by domestic deposits, which have increased during the financial crisis as funds were moved from asset management vehicles into bank deposits, which are perceived to be safer. Also, the Central Bank diminished reserve requirements and public banks increased their supply of credit. As a result, the global liquidity crisis had relatively little impact in Brazil. In addition, the credit default swap market in Brazil is still in its incipient stages and Brazilian banks may only acquire overseas credit default swaps through their non-Brazilian branches.

To date, the principal effects of the crisis on our business have been the following:

- Increased provisioning for loan losses due to expectations of increased rates of default, particularly from our small- and medium-sized corporate borrowers since the fourth quarter of 2008 through the third quarter of 2009;

- An increase in the cost of domestic funding resulting mainly from the unavailability of external funding; and

- A decrease in the rate of growth of credit volumes, particularly among individual borrowers in 2008 and corporate clients in 2009.

The global financial crisis has not had a material impact on our liquidity and capital resources due to the relatively stable economic environment in Brazil, our relatively low dependence on funding from the international markets, the strict compulsory deposit requirements of the Central Bank and a relatively large liquidity cushion we built up in response to the global financial crisis. We gauge liquidity needs on a recurring basis based on our business plans and we pursue funding actions based on anticipated funding needs. At December 31, 2008 and December 31, 2009, our Basel capital adequacy ratio as measured by the Central Bank criteria was 14.7% and 25.6%, respectively. Our securities portfolio consists mainly of Brazilian government fixed income securities, and therefore we did not have a high level of exposure to the downturn in the worldwide equity markets in 2008 and the first quarter of 2009.

Acquisition of Banco Real

On August 29, 2008, as further described in note 3 to our consolidated financial statements, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. became our wholly-owned subsidiaries pursuant to a share exchange transaction (incorporação de ações) approved by the shareholders of Santander Brasil, Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A., roughly doubling our size in terms of total assets. Principally as a result of this transaction, the number of our active current account holders increased from approximately 3.5 million to approximately 7.7 million from June 30, 2008 to December 31, 2008, and in the same period, our distribution network increased from 1,546 branches and service site units to 3,603 branches and service site units. As of December 31, 2007, Banco Real had total assets of R$112.8 billion and shareholders' equity of R$13.2 billion. With the integration of Banco Real and organic growth, we increased our loans and receivables from R$55.0 billion as of December 31, 2007 to R$162.7 billion as of December 31, 2008, and our total deposits increased from R$74.1 billion as of December 31, 2007 to R$182.3 billion as of December 31, 2008.

As a consequence of this acquisition, one of the key factors to be considered when analyzing our financial condition and results of operations as of and for the years ended December 31, 2008 and 2007 and the year ended December 31, 2009 and 2008 is the consolidation of the entities of Banco Real in our financial statements since August 30, 2008. As a result, our results of operations for 2008 are not comparable to those of 2007 and our results of operations for 2009 are not comparable to 2008. In order to analyze the organic developments in our business obscured by the effect of the Banco Real acquisition, management uses and we present in this information memorandum pro forma information for the year ended December 31, 2008 as if we had consolidated Banco Real as from January 1, 2008. For a complete presentation of this pro forma information, see "Unaudited Pro Forma Consolidated Financial Information."

In addition, to provide meaningful disclosure with respect to our results of operations for the year ended December 31, 2008, management uses, and we present, in addition to our audited results of operations for that period, certain full year 2008 financial information excluding the results of Banco Real. Banco Real was our wholly-owned subsidiary during the last four months of 2008 and this presentation is intended only to subtract from our reported results for 2008 the amounts contributed by Banco Real. This information does not purport to represent what our results of operations would have been had we not acquired Banco Real. We have not adjusted our reported results for any expenses incurred in 2008 in connection with the acquisition of Banco Real or for any revenue synergies. Management believes that any such additional expense or revenue was not material. The following table shows our results of operations for the year ended December 31, 2008, the amounts contributed by Banco Real in that period, and our reported results less amounts contributed by Banco Real.

	For the year ended December 31, 2008		
	As reported less Banco Real	Banco Real	As reported
	(in millions of R$)		
Interest and similar income	14,694	9,074	23,768
Interest expense and similar charges	(8,023)	(4,307)	(12,330)
Net interest income	6,671	4,767	11,438
Income from equity instruments	35	2	37
Share of results of entities accounted for using the equity method	6	106	112
Fee and commission income	3,801	1,008	4,809
Fee and commission expense	(334)	(221)	(555)
Gains/losses on financial assets and liabilities (net)	333	(1,620)	(1,286)
Exchange differences (net)	300	1,176	1,476
Other operating income (expenses)	(92)	32	(60)
Total income	10,720	5,251	15,971
Administrative expenses	(4,656)	(2,529)	(7,185)
Depreciation and amortization	(656)	(190)	(846)
Provisions (net)	(1,113)	(117)	(1,230)
Impairment losses on financial assets (net):	(2,864)	(1,236)	(4,100)
Impairment losses on other assets (net)	(4)	(73)	(77)
Gains/losses on disposal of assets not classified as non-current assets held for sale	6	1	7
Gains/losses on disposal of non-current assets held for sale	25	(16)	9
Profit before tax	1,458	1,091	2,549
Income tax	(217)	47	(170)
Net income	**1,241**	**1,138**	**2,379**

We are seeking to generate cumulative cost synergies from the acquisition and integration of Banco Real of approximately R$2.4 billion by December 31, 2011 as a result of applying best practices across the two banks, integrating the information technology platforms, streamlining banking operations and workforce, integrating outsourcing operations and centralizing management functions. In addition, we are targeting cumulative revenue synergies of approximately R$300 million by December 31, 2011 as a result of cross-selling opportunities arising from the integration of Banco Real and Santander Brasil and the implementation of best practices in customer care for each bank's historical customer base. Our ability to achieve these synergy targets is subject to a number of risks and we may not realize these synergies in the timeframes or to the extent expected, if at all. See "Risk Factors—Risks Relating to Santander Brasil and the Brazilian Financial Services Industry— We may fail to recognize the contemplated benefits of the acquisition of Banco Real" and "— Other Factors Affecting Financial Condition and Results of Operations — Goodwill of Banco Real".

Other Factors Affecting Financial Condition and Results of Operations

As a Brazilian bank, we are strongly affected by the general economic environment in Brazil. The following table presents key data of the Brazilian economy for the periods indicated.

	Year ended December 31,		
	2009	2008	2007
GDP growth(1)	(0.20)%	5.1%	5.4%
CDI rate(2)	9.88%	12.28%	11.91%
TJLP(3)	6.00%	6.25%	6.37%
SELIC rate(4)	8.75%	13.75%	11.25%
Increase (decrease) in *real* value against the U.S. dollar	34.20%	(24.2%)	17.2%
Selling exchange rate (at period end) R$ per U.S.$1.00	R$1.741	R$2.337	R$1.771
Average exchange rate R$ per U.S.$1.00(5)	R$ 2.00	R$1.838	R$1.786
Inflation (IGP-M)(6)	(1.70)%	9.8%	7.7%
Inflation (IPCA)(7)	4.30%	5.9%	4.5%

Sources: BNDES, Central Bank, FGV, IBGE and LCA Consultores.

(1) Revised series. Source: IBGE.
(2) The Interbank Deposit Certificate (*Certificado de Depósito Interbancário*, or "CDI" rate) is the average daily interbank deposit rate in Brazil (at the end of each month and annually).
(3) Represents the interest rate applied by the BNDES for long-term financing (at the end of the period).
(4) The benchmark interest rate payable to holders of some securities issued by the Brazilian government and traded on the Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*).
(5) Average of the selling exchange rate for the last day of each month during the period.
(6) The inflation rate is the general index of market prices (*Índice Geral de Preços-Mercado*, or "IGP-M"), as calculated by FGV.
(7) The inflation rate is the consumer price index (*Índice de Preços ao Consumidor – Amplo*, or "IPCA"), as calculated by the IBGE.

Interest Rates

Since the implementation of an inflation targeting framework in 1999, the Central Bank has broadly reduced price volatility and inflation. The SELIC was lowered from 45.00% per annum in 1999 to 13.75% in September 2008, shortly before the recent worldwide financial crisis began. The worldwide financial crisis led to further reductions of the SELIC, which was set at 8.75% in July 2009 (its lowest historical level). The reduction in the SELIC contributed significantly to the economic recovery.

The following table presents the low, high, average and period-end SELIC since 2005, as reported by the Central Bank. Our assets are predominantly fixed rate and our liabilities predominantly floating. The resulting exposure to increases in market rates of interest is modified by our use of cash flow hedges to convert floating rates to fixed, but we maintain an exposure to interest rate movements. At December 31, 2009, a sustained 100 basis point increase in market rates of interest along the length of the yield curve would have resulted in a R$200 million decline in net interest income over a one-year period.

Year	Low	High	Average(1)	Period-End
2005	17.75	19.75	19.15	18.00
2006	13.25	18.00	15.10	13.25
2007	11.25	13.25	11.25	11.25
2008	11.25	13.75	12.54	13.75
2009	8.75	13.75	9.92	8.75

(1) Average of month-end rates during the period.

Credit Volume

Credit volume in Brazil has strongly increased since 2004, mainly driven by lower inflation, decreasing interest rates and consistent economic growth. The worldwide financial crisis has affected the growth rates of consumer credit mainly in 2008 (consumer credit volumes experienced a recovery in 2009) and corporate credit mainly in 2009 (corporate credit volumes experienced strong growth in 2008). The table below presents the year-on-year nominal growth of credit, according to Central Bank figures.

	Average 2001-2005	2006	2007	2008	2009
Total volume of credits..	15.9%	20.7%	27.8%	31.1%	15.0%
To consumers	20.2%	24.5%	32.6%	25.7%	22.7%
To corporates...	13.8%	18.5%	24.9%	34.5%	10.5%

The credit growth was lower in 2009 than in 2007 and 2008, although still robust, and the credit/GDP ratio reached 45% in 2009, compared to 34.2% in 2007 and 41.3% in 2008. This is the highest ratio ever in Brazil, but is still a relatively low ratio compared to other countries, such as, for example, Chile, where total bank credit to the private sector was equivalent to 100% of GDP in 2009, according to Chilean Central Bank statistics from September 2009.

Foreign Exchange Rates

At December 31, 2009, we had U.S.$12.3 billion in foreign currency-denominated funding and U.S.$12.1 billion in foreign currency denominated assets. Our policy is to maintain limited foreign exchange rate exposure by seeking to match foreign currency denominated assets and liabilities as closely as possible, including through the use of derivative instruments. In 2009, we recorded foreign exchange losses of R$51.2 million due to our long position in U.S. dollar-denominated assets and the 25.5% appreciation of the *real* against the U.S. dollar. These losses were offset in large part by corresponding gain on derivatives entered into to hedge this exposure. Such losses are recorded under "Gains/losses on financial assets and liabilities". In 2008, we recorded foreign exchange gains of R$1.5 billion due to our long position in U.S. dollar-denominated assets and the depreciation of the *real* against the U.S. dollar. This gain was offset in large part by corresponding losses on derivatives entered into to hedge this exposure. Such losses are recorded under "Gains/losses on financial assets and liabilities."

The Brazilian currency has during the last decades experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between 2003 and mid 2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macroeconomic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R$1.559 per US$1.00 in August 2008. In the context of the crisis in the global financial markets from mid 2008 through 2009, the *real* depreciated 31.9% against the U.S. dollar over the year 2008 and reached R$2.337 per US$1.00 on December 31, 2008. The *real* recovered in the second half of 2009, reaching R$1.741 per US$1.00 at December 31, 2009, principally due to the recovery of consumer confidence, exports and foreign investment in the second half of the year.

Inflation

The inflation rate in Brazil has been volatile in the past and at times high, but the implementation of inflation targeting policies has led to lower and more stable inflation rates. The center of the target inflation range since 2005 has been 4.5%, with a cushion of two percentage points in each direction, and the Central Bank has been successful in staying within its inflation targets.

In 2009, the global financial crisis led to a significant reduction in commodities prices, and, therefore, reduced inflation. IPCA, the official consumer price index, reached 4.3% at year end 2009 (5.9% in 2008), and food prices rose 3.2% in 2009 (11.1% in 2008). Also, tax incentives to purchase cars and durable goods reduced the prices of these products (a 1.9% decrease in 2009, compared to a 1.0% increase in 2008) and, therefore, contributed to lower inflation, despite the monetary stimulus for domestic demand.

Reserve and Lending Requirements

The Central Bank's reserve and lending requirements have a significant effect on the results of operations of banks in Brazil. The raising or lowering of these requirements impacts our results of operations by limiting or increasing the amount of funds available for commercial lending operations.

Beginning in the last quarter of 2008, the Central Bank has amended the reserve requirement rules in order to improve liquidity in Brazil's financial system. Largely due to these amendments, our level of required reserves and lending declined from a high of R$40.0 billion (or 33% of total deposits) on September 30, 2008 to R$24.8 billion (or 22% of total deposits) on December 31, 2009 (as calculated under Brazilian GAAP). The principal changes to the required reserves were:

1. increasing the amount deductible from the Central Bank's additional reserve requirement for savings deposits, demand deposits and time deposits from R$100 million to R$1 billion;

2. decreasing the rate applied to calculate the Central Bank's additional reserve requirement for demand and time deposits from 8% to 4%;

3. decreasing the rate of the Central Bank's reserve requirement for demand deposits from 45% to 42%;

4. increasing the amount deductible from legal reserve requirements for time deposits from R$300 million to R$2 billion;

5. changing the form of compulsory deposits for time deposits from 100% in government securities to 30% in government securities (40% from January 5, 2009 and 45% from September 21, 2009) and 70% in cash (60% from January 5, 2009 and 55% from September 21, 2009). The cash reserve requirement may be satisfied with interbank deposits or asset acquisitions from financial institutions having regulatory capital of less than R$2.5 billion; and

6. decreasing the rate applied to calculate the Central Bank's reserve requirement for time deposits from 15.0% to 13.5% as from September 21, 2009.

The following table sets forth the reserve and lending requirements to which we are subject for each category of funding.

Product	December 31, 2009	Form of Required Reserve	Yield
Demand deposits			
Rural credit loans(1)	30%		6.75% p.a.
Microcredit loans(2)	2%		Cap rate: 2% p.m.
Reserve requirements	42%	Cash	Zero
Additional reserve requirements	5%	Government Bonds	Overnight Rate
Free funding(3)	21%		
Savings accounts			
Mortgage loans	65%		Cap of TR + 12% p.a.
Reserve requirements	20%	Cash	TR + 6.17% p.a.
Additional reserve requirements	10%	Government Bonds	Overnight Rate
Free funding(3)	5%		
Time deposits			
Reserve requirements	13.5%		
In cash or credit(4)	7.425%	Cash or Credit	Zero for Cash
In government bonds	6.075%	Government Bonds	Overnight Rate
Additional reserve requirements	4%	Government Bonds	Overnight Rate
Free funding(3)	82.5%		

(1) Rural credit loans are loans to agricultural customers, of which R$5.6 billion and R$5.1 billion were outstanding as of December 31, 2008 and December 31, 2009, respectively.

(2) Microcredit loans are loans to very small businesses, of which R$158.5 million and R$181.5 million were outstanding as of December 31, 2008 and December 31, 2009, respectively.

(3) Free funding is the amount of each category of funding we are free to use for any purpose.

(4) Includes only credit acquired up to December 31, 2009 from financial institutions having net capital of less than R$7 billion.

Taxes

Our tax expense principally consists of two components: (1) a federal income tax and (2) a social contribution tax. The federal income tax is calculated at a rate of 15%, plus a 10% surtax assessed on taxable profits in excess of R$240 thousand per annum. The social contribution tax is calculated at a rate of 15% (for financial institutions) of certain net revenues (9% through April 30, 2008, 15% and from May 1, 2008). Deferred tax assets and liabilities are computed based on temporary differences between the book basis and tax basis of assets and liabilities, tax losses, and adjustments to the fair value of securities and derivatives. In addition, we are assessed PIS and COFINS taxes at a rate of 4.65% on certain revenues, net of certain expenses. Under IFRS, since PIS/COFINS taxes are assessed on the basis of certain revenues net of certain expenses, the Bank classifies these taxes as income taxes.

A tax on financial transactions, the "IOF", is currently paid by the customer on loans at a rate of 0.0041% per day up to a cap of 1.5% plus an additional rate of 0.38% per financial transaction. Generally, loans with maturity of greater than 365 days are currently subject to an IOF/credit tax at a rate of 1.88%. We are responsible for withholding the IOF but the tax does not affect our reported results.

As a general rule, the Provisional Contribution on Financial Transactions (*Contribuição Provisória sobre Movimentações Financeiras*, or "CPMF") has been charged at the rate of 0.38% on certain financial transactions since June 1999. On December 31, 2007, the CPMF was terminated, and since January 1, 2008, financial transactions have not been subject to the payment of CPMF. When the CPMF was effective, we were responsible for withholding the tax, but it did not affect our reported results except to a non-material extent in connection with our payment of CPMF on certain of our administrative expense payments. Such CPMF amounts are reflected under "Administrative expenses".

Gains on Sales of Investment Securities

Our operational results between 2007 and 2009 were affected by certain gains on sales of investment securities and participations. In 2009, we had pre-tax gains of R$3.3 billion in connection with sales of our participations and investment securities on Visanet, Companhia Brasileira de Soluções e Serviços (CBSS), TecBan, Serasa S.A. and BM&FBovespa; these gains were offset by the increase in our provisions for contingencies. In 2008 and 2007, we had pre-tax gains of R$88 million and R$693 million, respectively, excluding Banco Real, in connection with sales of investment securities, including shares in BM&F, BOVESPA and Serasa S.A.

Cayman Offshore Hedging

We operate a branch in Grand Cayman which is used primarily for sourcing funds in the international banking and capital markets to provide credit lines for us that are extended to our customers for working capital and trade-related financings. Our investment in the Grand Cayman branch is denominated in U.S. dollars in the amount of U.S.$2.6 billion as of December 31, 2008 and U.S.$3.0 billion as of December 31, 2009. We hedge the resulting U.S. dollar-denominated exposure through transactions in U.S. dollar futures. Our position in U.S. dollar futures as of December 31, 2008 was U.S.$1.4 billion and as of December 31, 2009 was U.S.$1.9 billion. Changes in the fair value of these futures are reflected under gains and losses on financial assets. Under Brazilian income tax rules, the gain resulting from the impact of a devaluation of the *real* on our U.S. dollar-denominated investment in the Cayman Island branch is non-taxable and the loss resulting from the impact of an appreciation of the *real* is not deductible. This tax treatment results in volatility in the income tax items in our income statement. This asymmetry is offset by our hedging results because our derivative positions generate losses (tax deductible) in the case of devaluation of the *real* and gains (taxable) in the case of appreciation. As a result, the after-tax effect of these derivative positions provides a hedge against the tax foreign currency exposure resulting from our Cayman Island investment (that is, the R$721 million after-tax effect of the hedge at December 31, 2009 offsets the R$721 million tax effect of our Cayman exposure at that date). This investment and our related hedging transactions will continue to result in variations in our effective tax rate.

Goodwill of Banco Real

The potential impairment of goodwill relating to Banco Real may be an important factor affecting our results of operations in future periods. We generated goodwill of R$27.5 billion as a result of the acquisition of Banco Real. Under IFRS, we are required to analyze goodwill for impairment at least annually or whenever there are indications of impairment. For this purpose, in 2009, management estimates and assumptions are subject to several factors including: (i) macroeconomic projections of interest rates, inflation exchange rates and others; (ii) the conduct and growth estimates; (iii) increased costs, returns, synergies and investment plans; (iv) the behavior of customers; and (v) growth rates and adjustments applied to future cash flows. We did not identify any impairment to the goodwill relating to Banco Real in 2009. In 2008, due to the recent incorporation of Banco Real into the group and the results of the related market value calculation and purchase price allocation valuation recently performed, the Bank did not detect, and therefore did not recognize, any impairment losses. We may be required to record an impairment charge in the future if management determines that there is objective evidence of impairment. Any impairment in goodwill relating to the Banco Real acquisition will be reflected in our income statement under impairment losses on other assets (net). See "—Critical Accounting Policies—Impairment". For tax purposes, goodwill is amortized over a seven year period.

Critical Accounting Policies

General

Our principal accounting policies are described in note 2 to our consolidated audited financial statements included elsewhere in this information memorandum. The following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates made in these contexts require management to make assumptions about matters that are highly uncertain. In each case, if management had made other estimates, or if changes in these estimates occur from period to period, these accounting estimates could have a material impact on our financial condition and results of operations.

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under current circumstances. Actual results may differ from these estimates if assumptions and conditions change. Judgments or changes in assumptions are submitted to the audit and compliance committee of the board of directors and/or to our regulatory authorities and are disclosed in the notes to our consolidated financial statements.

Fair value of financial instruments

We record financial assets and liabilities as financial instruments that are classified at fair value through profit or loss, available for sale securities, and all derivatives at fair value on the balance sheet. The fair value of a financial instrument is the value at which it could be bought or sold in a current transaction between knowledgeable, willing parties on an arm's length basis. If a quoted price in an active market is available for an instrument, the fair value is calculated based on that price.

If there is no market price available for a financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving the same or similar instruments and, in the absence thereof, on the basis of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

We use derivative financial instruments for both trading and non-trading activities. The principal types of derivatives used are interest rate swaps, future rate agreements, interest rate options and futures, foreign exchange forwards, foreign exchange futures, foreign exchange options, foreign exchange swaps, cross currency swaps, equity index futures, equity options, and equity swaps. The fair value of standard derivatives is calculated based on published price quotations. The fair value of over-the-counter derivatives is calculated as the sum of the expected future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets as follows:

- The present value method for valuing financial instruments permitting static hedging (principally forwards and swaps) and loans and advances. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data.

- The Black-Scholes model for valuing financial instruments requiring dynamic hedging (principally structured options and other structured instruments). Certain observable market inputs are used in the Black-Scholes model to generate variables such as the bid-offer spread, exchange rates, volatility, correlation between indexes and market liquidity, as appropriate.

- Each of the present value method and the Black-Scholes model is used for valuing financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors. For more structured instruments that require dynamic hedging, the Heath-Jarrow-Morton model is used. The main inputs used in these models are principally observable market data, including appropriate interest rate curves, volatilities, correlations and exchange rates.

- We use dynamic models similar to those used in the measurement of interest rate risk for measuring credit risk of linear instruments (such as bonds and fixed-income derivatives). In the case of non-linear instruments, if they are exposed to portfolio credit risk (such as credit derivatives), the joint probability of default is determined using the Standard Gaussian Copula model. The main inputs used in the Standard Gaussian Copula model are generally data relating to individual issuers in the portfolio and correlations thereto. The main inputs used in determining the underlying cost of credit for credit risk derivatives are quoted credit spreads, and the correlation between individual issuers' quoted credit derivatives.

- The determination of fair value requires us to make certain estimates and assumptions. If quoted market prices are not available, fair value is calculated using widely accepted pricing models that consider contractual prices of the underlying financial instruments, yield curves, contract terms, observable market data, and other relevant factors. The use of different estimates or assumptions in these pricing models could lead to a different valuation being recorded in our consolidated financial statements.

See note 2d (iii) to our consolidated financial statements for additional information on valuation techniques used by us and details of the principal assumptions and estimates used in these models and the sensitivity of the valuation of financial instruments to changes in the principal assumptions used.

Allowance for credit losses

We assess financial assets accounted for at amortized cost for objective evidence of impairment. Any resulting allowances for credit losses are recognized and measured in accordance with IAS 39. Credit losses exist if the carrying amount of an asset or a portfolio of assets exceeds the present value of the estimated future cash flows.

We cover losses inherent in debt instruments not measured at fair value through profit or loss and in contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods that have not yet been allocated to specific transactions.

We use the concept of incurred loss to quantify the cost of the credit. Incurred loss is the expected cost, on average in a complete business cycle, of the credit risk of a transaction, considering the characteristics of the counterparty and the guarantees and collateral associated with the transaction.

The credit portfolio is broken down, identifying clusters that show, within each cluster, homogeneous levels in the estimated parameters of probability of default, or "PD", and loss given default, or "LGD", and stability on those parameters for a period of historical data of five years for PD and seven years for the LGD. Each of these clusters demonstrates distinct levels of these parameters.

For each business segment, incurred loss is calculated by using statistical models that consider the following three factors: "exposure at default", "probability of default" and "loss given default".

Exposure at default or "EAD" is the amount of risk exposure at the date of default by the counterparty.

In accordance with IFRS, the exposure at default used for this calculation is the current exposure, as reported in the balance sheet.

Probability of default, or "PD", is the probability of the counterparty failing to meet its principal and/or interest payment obligations.

PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year. The definition of default includes amounts past due by 90 days or more and cases in which there are no arrears but there are doubts as to the solvency of the counterparty (subjective doubtful assets).

Loss given default, or "LGD", is the loss arising in the event of default.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account the guarantees/collateral associated with the transaction, the income and expenses associated with the recovery process, and also the timing thereof and the indirect costs arising from the recovery process.

Our methodology for determining the allowance in respect of incurred losses that have not been specifically identified seeks to identify the amount of incurred losses as of the balance sheet date of loans that have not yet been identified as impaired, but that we estimate, based on our past experience, will manifest within one year from the balance sheet date. We refer to such impairment as inherent losses in the context of our internal credit loss allowance models.

The approach described above is used as a general rule and covers almost the entire portfolio. However, for low default portfolios (sovereign risk, credit institutions or large corporations) the number of defaults observed is very small or zero. In these cases, we use data contained in the credit derivative spreads to estimate the expected loss discounted by the market and break it down into PD and LGD.

Impairment

Certain assets, including goodwill, other intangible assets, equity method investments, financial assets not carried at fair value through profit or loss and other assets are subject to impairment review. We record impairment charges when we believe there is objective evidence of impairment, or that the cost of the assets may not be recoverable. Assessment of what constitutes impairment is a matter of significant judgment.

We test goodwill and other intangible assets for impairment on an annual basis, or more frequently if events or changes in circumstances, such as an adverse change in business climate or observable market data, indicate that these assets may be impaired. An impairment loss recognized for goodwill may not be reversed in a subsequent period. The fair value determination used in the impairment assessment requires estimates based on quoted market prices, prices of comparable businesses, present value or other valuation techniques, or a combination thereof, requiring management to make subjective judgments and assumptions. Events and factors that may significantly affect the estimates include, among other things, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates and specific industry or market sector conditions.

All debt and equity securities (other than those carried at fair value through profit or loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred.

Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may not pay amounts when due. Equity securities are impaired when management believes that, based on (the combination of) a significant or prolonged decline of fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. "Significant" and "prolonged" are interpreted on a case-by-case basis for specific equity securities.

Upon impairment, the full difference between amortized cost and fair value is removed from equity and recognized in net profit or loss. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event. Impairments on equity securities may not be reversed.

Retirement Benefit Obligations

The Bank provides pension plans in the form of both defined contribution plans and defined benefit plans, in accordance with IAS 19. For defined contribution plans, the pension cost recognized in the consolidated income statement represents the contribution payable to the scheme. For defined benefit plans, the pension cost is assessed in accordance with the advice of a qualified external actuary using the projected unit credit method. This cost is charged annually to the consolidated income statement.

The actuarial valuation is dependent upon a series of assumptions; the principal ones are set forth below:

- assumed interest rates;
- mortality tables;
- annual social security pension revision rate;
- price inflation;
- annual salary growth rate, and
- the method used to calculate vested commitments to current employees.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date, adjusted for any historic unrecognized actuarial gains or losses and past service cost, is recognized as a liability in the balance sheet.

Further information on retirement benefit obligations is set out in notes 2 and 21 to our consolidated financial statements.

Results of Operations

We are a financial group whose main business focus is commercial banking, complemented by global wholesale banking, asset management and insurance businesses.

Our main source of income is the interest that we earn from our lending activities, by borrowing funds from customers at certain rates and lending them to other customers at different rates. We also derive income from the interest and dividends that we receive from our investments in fixed/variable income and equity securities, from our trading activities in such securities and derivatives, by buying and selling these instruments to take advantage of current and/or expected differences between purchase and sale prices, and from entering into derivative transactions with customers on which we hedge our market risk exposure and earn a spread.

Another source of income is the fees and commissions that we earn from the different banking and other financial services that we provide, including credit and debit cards, insurance sales, account management, bill discounting, guarantees and other contingent liabilities, advisory and custody services, and from our mutual and pension funds management services.

In addition, from time to time, we derive income from the capital gains we make from the sale of our holdings in group companies.

Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

As a consequence of our acquisition of Banco Real in August 2008, our results of operations for the year ended December 31, 2008 and 2009 are not comparable. In order to analyze the organic developments in our business we discuss pro forma information for the year 2008 as if we had consolidated Banco Real as from January 1, 2008. For a complete presentation of this pro forma information, see – "Unaudited Pro Forma Consolidated Financial Information".

	For the year ended December 31,						
	2009	2008 (pro forma)	2008	% Change	% Change (pro forma)	Change	2008
				(in millions of R$)			
Net interest income	22,167	19,231	11,438	94%	15%	2,936	10,729
Income from equity instruments	30	39	37	(19%)	(23%)	(9)	(7)
Net fees and commissions	6,238	5,866	4,254	47%	6%	372	1,984
Share of results of entities accounted for using the equity method	295	305	112	163%	(3%)	(10)	183
Gains/losses on financial assets and liabilities (net)	2,716	(484)	(1,286)	n.a	n.a	3,200	4,002
Exchange differences (net)	(51)	1,261	1,476	n.a	n.a	(1,312)	
Other operating income (expenses)	(115)	(75)	(60)	94%	55%	(41)	(56)
Gross income	**31,280**	**26,143**	**15,971**	**96%**	**20%**	**5,136**	
Administrative expenses	(10,947)	(11,532)	(7,185)	52%	(5%)	585	(3,762)
Depreciation and amortization	(1,249)	(1,236)	(846)	48%	1%	(13)	(403)
Provisions (net)	(3,481)	(1,702)	(1,230)	183%	105%	(1,779)	(2,251)
Impairment losses on financial assets (net)	(9,966)	(6,570)	(4,100)	143%	52%	(3,397)	(5,868)
Impairment losses on other assets (net)	(901)	(85)	(77)	n.a	n.a	(816)	(824)
Gains/losses on disposal of assets not classified as non-current assets held for sale	3,369	32	7	n.a	n.a	3,337	3,362
Gains/losses on disposal of non-current assets held for sale	32	22	9	269%	55%	12	25
Profit before tax	**8,137**	**5,072**	**2,549**	**219%**	**60%**	**3,065**	**5,588**
Taxes	(2,629)	(1,159)	(170)	n.a	127%	(1,470)	(2,459)
Net income	**5,508**	**3,913**	**2,379**	**132%**	**41%**	**1,595**	**3,129**

Summary

Net income for the year ended December 31, 2009 was R$5.5 billion, a 132%, or R$3.1 billion increase from R$2.4 billion for the year ended December 31, 2008. The increase was mainly due to the consolidation of Banco Real in our financial statements. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net income for the year ended December 31, 2009 increased by 41% compared to R$3.9 billion for the year ended December 31, 2008. This increase was mainly due to:

- Capital gains of R$3.4 billion realized upon the sale of part of equity participations in our portfolio, principally the sale of our interests in Visanet (now named Cielo), partially offset by an increase in provisions for contingencies;

- An increase of 12.4% in average credit volumes and a resulting increase in revenues from lending operations. The credit market in Brazil continued to grow in 2009, although at a slower pace than in previous years. Credit balances at December 31, 2009 were 15% higher than at December 31, 2008;

- A R$3.4 billion increase in credit impairment losses driven by deteriorating economic conditions; and

- Increased gains on financial assets in 2009.

Net Interest Income

Santander Brasil's net interest income in 2009 was R$22.2 billion, a 94% or R$10.7 billion increase from R$11.4 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net interest income in 2009 increased by 15% compared to R$19.2 billion in 2008. This increase was mainly due to growth in our lending activities, in addition to an increase in the average spread of our credit assets over interbank rates.

Average total earning assets in 2009 were R$229.5 million, a 72% or R$95.8 million increase from R$133.7 million in 2008. The principal drivers of this increase were (i) the acquisition of Banco Real and (ii) an increase in average loans and advances to customers. The increase in loans and advances was driven by an increase in corporate lending, principally trade finance in our Global Wholesale Banking segment, as well as an increase in retail lending mainly driven by an increase in mortgage lending and an increase in unsecured personal credit. The growth in mortgage lending was in line with the growth of this product in the Brazilian market as the housing credit market is still very incipient in Brazil in comparison with more mature economics. The increase in personal credit was else in line with market trends in Brazil.

Average total interest bearing liabilities in 2009 were R$184.3 million, a 68% or R$74.9 million increase from R$109.4 million in 2008. The principal driver of this increase was an increase in time deposits. This growth resulted from a movement of customer funds out a mutual funds and other similar vehicles into lower risk bank deposits as well as a "flight to quality" as Brazilian customers moved their savings to larger financial institutions.

Those average earning assets and bearing liabilities include only the information of Banco Real since September 2008. Net interest income also benefited from a 20 basis point increase in the spread of the average yield earned on our interest earning credit assets over the average CDI rate, which is a proxy for the cost of interbank funding. This spread is the way we evaluate the yield earned on our assets. The increase in this spread reflects increase in market credit risk that we bear as a result of economic and credit conditions arising from the recent economic crisis, offset in part by a relative decrease in the percentage of our total portfolio comprised of higher-risk retail lending.

Net Fees and Commission Income

Net fees and commission income in 2009 was R$6.2 billion, a 47% or R$2.0 billion increase from R$4.3 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net fees and commission income in 2009 increased by 6% compared to R$5.9 billion in 2008. This increase was mainly due to a R$198 million growth in the sale of insurance and capitalization and a R$166 million increase in commissions on credit and debit cards.

The following table reflects the breakdown of net fee and commission income for the year ended December 31, 2009 and 2008 (on a pro forma basis).

	Year ended December 31,		
	December 2009	**December 2008**	**% Change**
		(in millions of R$)	
Banking fees	2,458	2,376	3%
Receiving Services	502	442	14%
Sale of insurance	1,042	844	23%
Investment funds	737	830	(11)%
Credit and debit cards	782	616	27%
Capital markets	539	413	31%
Trade finance	384	397	(3)%
Tax on services	(350)	(351)	(0)%
Others	144	299	(52)%
Total	**6,238**	**5,866**	**6%**

Share of Results of Entities Accounted for using the Equity Method

Share of results of entities accounted for using the equity method in 2009 was R$295 million, a R$183 million increase from R$112 million in 2008 This increase was mainly due to gains of R$126 million from ABN Dois Participações, R$110 million of which was due to the sale of Real Capitalização business, to our affiliate Santander Seguros. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, share of results of entities accounted for using the equity method in 2009 decreased 3% compared to R$305 million in 2008.

Gains (Losses) on Financial Assets and Liabilities (Net)

Gains (losses) on financial assets and liabilities (net) in 2009 were gains of R$2.7 billion, a R$4.0 billion increase from losses of R$1.3 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, gains (losses) on financial assets and liabilities (net) in 2009 increased R$3.2 billion compared to losses of R$484 million in 2008. An amount of R$1.3 billion of these gains relate to foreign currency derivatives entered into to hedge our exposure and were partially offset by foreign exchange losses recorded under exchange differences. In addition, the increase was driven by a R$1.7 billion increase in gains on our Cayman Islands investment hedge and R$126 million increase in proceeds from the sale of long-term investments upon the sale of part of our interests in BOVESPA and BM&F offset in part by a R$76 million decrease in results from our proprietary trading activities. As noted above under "—Other Factors Affecting Financial Condition and Results of Operations—Cayman Offshore Hedging", changes in our Cayman Islands investment hedge are offset by corresponding change in our income tax rate. See "—Income Tax" below.

Exchange Differences (Net)

Exchange differences (net) in 2009 were a loss of R$51 million, a R$1.5 billion decrease from a gains of R$1.5 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, exchange differences (net) in 2009 decreased R$1.3 billion compared to a gain of R$1.3 billion in 2008 due primarily to the average appreciation of the *real* against the U.S. dollar for the year ended December 31, 2009 compared to the year ended December 31, 2008. These losses were largely offset by gains on derivative transactions settled to hedge our foreign currency exposure. See "— Gains (Losses) on Financial Assets and Liabilities (Net)" above.

Other Operating Income (Expenses)

Other operating income (expenses) in 2009 was expense of R$116 million, compared to expense of R$60 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, other operating expenses in 2009 increased by R$41 million to expenses of R$75 million in 2008. This change was mainly due to declines in fees relating to auto loan originations and declines in banking fees for checking accounts and lending/leasing commissions due to limits imposed by the Central Bank starting in May 2008.

Administrative Expenses

Administrative expenses changed from R$7.2 billion in 2008, or R$11.5 billion on a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, to R$10.9 billion in 2009. The decrease on a pro forma basis was primarily due to the cost synergies which were created as a result of the merger between Santander Brasil and Banco Real, particularly from personnel reductions, offset in part by salary increases tied to inflation. As a result, our efficiency ratio, which we calculate as administrative expenses divided by total income, decreased from 44% for the year ended December 31, 2008 on a pro forma basis to 34.7% for the year ended December 31, 2009.

Personnel expenses

The following table sets forth personnel expenses for each of the periods indicated,

	Year ended December 31,	
	2009	2008 (pro forma)
	(in millions of R$)	
Salaries	3,364	3,571
Social Security	971	944
Benefits	749	678
Training	88	85
Others	339	396
Total	**5,511**	**5,674**

Provisions (Net)

Provisions principally include provisions for labor and tax contingencies, civil claims, and especially for labor claims. Provisions (net) was R$3.5 billion for the year ended December 31, 2009, compared to R$1.2 billion for the year ended December 31, 2008, or R$1.7 million on a pro forma basis. This increase reflected increased provisions for labor and civil claims and provisions for restructuring costs associated with the Banco Real acquisition.

Impairment Losses on Financial Assets (Net)

Impairment losses on financial assets (net) in 2009 were R$10.0 billion, a 143.3% or R$5.9 billion increase from R$4.1 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, impairment losses on financial assets (net) in 2009 increased 51.9% compared to R$6.6 billion in 2008, mainly due to a 0.2% decrease in GDP in 2009 as compared to 2008, and higher unemployment rates.

Although the international financial crisis commenced in the second half of 2008, its major effects in terms of increasing default rates and deterioration of our credit portfolio occurred through the third quarter of 2009, when default rates reached their peak. In the fourth quarter of 2009, default rates started to decrease, reaching levels closer to those observed before the crisis.

The following table shows the ratio of our impaired assets to total computable credit risk and our coverage ratio at December 31, 2009 and December 31, 2008.

	As of December 31,	
	2009	2008
	(in millions of R$, except for percentages)	
Computable credit risk (1)	159,362	164,695
Non-performing assets	9,899	7,730
Allowances for non-performing assets	10,070	8,181
Ratios		
Non-performing assets to computable credit risk	**6.2%**	**4.7%**
Coverage ratio (2)	**101.7%**	**105.8%**

(1) Computable credit risk is the sum of the face amounts of loans and leases (including non-performing assets but excluding country risk loans), guarantees and documentary credits.
(2) Allowances for credit losses as a percentage of non-performing assets.

The following table shows our non-performing assets by type of loan at December 31, 2009 and December 31, 2008.

	At December 31,	
	2009	2008
	(in millions of R$)	
Impaired Assets by type of customer		
Commercial, financial and industrial	3,618	2,730
Real estate – mortgage	109	74
Installment loans to individuals	5,335	4,528
Lease financing	837	398
Total	**9,899**	**7,730**

Commercial, financial and industrial

Non-performing assets in commercial, financial and industrial loans increased by R$888 million from December 31, 2008 to December 31, 2009, primarily as a result of the effects of the financial crisis, principally on small- and medium-sized corporate and export-oriented borrowers.

Real estate – mortgage

Non-performing assets in real estate – mortgage loans remained stable, with an increase of R$35 million from December 31, 2008 to December 31, 2009.

Installment loans to individuals

Non-performing assets in installment loans to individuals increased by R$807 million from December 31, 2008 to December 31, 2009, mainly as a result of the decrease in consumption and increase in the unemployment rate.

Lease financing

Non-performing loans in lease financing decreased by R$439 million from December 31, 2008 to December 31, 2009, mainly as a result of the decrease in consumption and an increase in the unemployment rate.

Impairment Losses on Other Assets (Net)

Other impairment losses on other assets (net) in 2009 were R$901 million, a R$824 million increase from R$77 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, impairment losses on other assets (net) in 2009 increased R$816 million compared to R$85 million in 2008. This increase was mainly due to increases in impairment on real properties as a result of closing certain of our office buildings in connection with the expected move to our new headquarters.

Income Tax

Income tax was R$2.6 billion in 2009, a 1,445% or R$2.5 billion increase from R$170 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, income tax in 2009 increased 127% compared to R$1.2 billion in 2008. Our effective tax rates in 2009 and 2008 (on a pro forma basis), were 32% and 23%, respectively. In 2009, the 25% valuation of the *real* against the dollar on the net equity of our Cayman Island branch, and the positive hedge results, caused an increase of R$1.2 billion in the tax expenses, compared to the reduction of R$732 million in 2008. See "—Other Factors Affecting Financial Condition and Results of Operations—Cayman Offshore Hedging". On the other hand, the tax expenses were reduced by R$1.3 billion due to an increase in deductible goodwill amortization, compared to R$418 million in 2008.

Results of Operations by Segment for the Year ended December 31, 2009 Compared to the Year ended December 31, 2008

The following tables present an overview of certain income statement data for each of our operating segments for the year ended December 31, 2009 and 2008.

	For the year ended December 31, 2009						
	Commercial Banking	% of Total	Global Wholesale Banking	% of Total	Asset Management and Insurance	% of Total	Total
	(millions of R$, except percentages) (condensed income statement)						
Net interest income	20,260	91.4%	1,767	8.0%	140	0.6%	22,167
Income from equity instruments	30	100.0%	0	0.0%	0	0.0%	30
Share of results of entities accounted for using the equity method	295	100.0%	0	0.0%	0	0.0%	295
Net fee and commission income.	4,970	79.7%	863	13.8%	405	6.5%	6,238
Gains/losses on financial assets and liabilities	1,751	65.7%	859	32.2%	54	2.0%	2,665
Other operating income/(expenses)	(281)	242.4%	(23)	19.4%	188	-161.9%	(116)
Personnel expenses	(4,972)	90.2%	(474)	8.6%	(65)	1.2%	(5,511)
Other administrative expenses	(5,213)	95.9%	(175)	3.2%	(48)	0.9%	(5,436)
Depreciation and amortization of tangible and intangible assets	(1,176)	94.2%	(39)	3.1%	(34)	2.7%	(1,249)
Impairment losses on financial assets (net)	(9,884)	99.2%	(83)	0.8%	0	0.0%	(9,967)
Provisions (net)	(3,390)	97.4%	(45)	1.3%	(46)	1.3%	(3,481)
Impairment losses on non-financial assets (net)	(900)	99.8%	0	0.0%	(1)	0.2%	(901)
Other non-financial gains/(losses)	3,403	100.0%	0	0.0%	0	0.0%	3,403
Profit (loss) before tax	4,894	60.1%	2,651	32.6%	592	7.3%	8,137

	For the year ended December 31, 2008 (Pro Forma)						
Pro Forma	Commercial Banking	% of Total	Global Wholesale Banking	% of Total	Asset Management and Insurance	% of Total	Total
	(millions of R$, except percentages) (condensed income statement)						
Net interest income	17,719	92.1%	1,440	7.5%	72	0.4%	19,231
Income from equity instruments	39	100.0%	0	0.0%	0	0.0%	39
Share of results of entities accounted for using the equity method	305	100.0%	0	0.0%	0	0.0%	305
Net fee and commission income	4,866	83.0%	641	10.9%	358	6.1%	5,866
Gains/losses on financial assets and liabilities	(27)	-3.4%	797	102.5%	7	0.9%	777
Other operating income/(expenses)	(8)	11.2%	(66)	88.3%	(0)	0.5%	(75)
Personnel expenses	(4,998)	88.1%	(623)	11.0%	(53)	0.9%	(5,674)
Other administrative expenses	(5,621)	96.0%	(207)	3.5%	(30)	0.5%	(5,858)
Depreciation and amortization of tangible and intangible assets	(1,160)	93.8%	(72)	5.8%	(4)	0.4%	(1,236)
Impairment losses on financial assets (net)	(6,533)	99.4%	(37)	0.6%	0	0.0%	(6,570)
Provisions (net)	(1,631)	95.9%	(38)	2.3%	(32)	1.9%	(1,702)
Impairment losses on non-financial assets (net)	(85)	100.0%	0	0.0%	(0)	0.0%	(85)
Other non-financial gains/(losses)	54	100.0%	0	0.0%	0	0.0%	54
Profit (loss) before tax	2,919	57.6%	1,835	36.2%	317	6.3%	5,072

The following tables show our results of operations for the year ended December 31, 2009 and 2008 (actual results and on a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008), for each of our operating segments.

Commercial Banking	**For the year ended December 31,**		
	2009	**2008**	**2008**
		(pro forma)	
		(in millions of R$)	
Net interest income	20,260	1,719	10,192
Income from equity instruments	30	39	37
Share of results of entities accounted for using the equity method	295	305	112
Net fee and commission income	4,970	4,866	3,602
Gains/losses on financial assets and liabilities (net)	1,751	(27)	(358)
Other operating income (expenses)	(281)	(8)	(22)
Gross income	**27,026**	**22,894**	**13,564**
Personnel expenses	(4,972)	(4,998)	(3,105)
Other administrative expenses	(5,213)	(5,621)	(3,485)
Depreciation and amortization of tangible and intangible assets	(1,176)	(1,160)	(798)
Provisions (net)	(3,390)	(1,631)	(1,161)
Impairment losses on financial assets (net)	(9,884)	(6,533)	(4,076)
Impairment losses on other assets (net)	(900)	(85)	(77)
Other non-financial gains (losses)	3,403	54	16
Profit (loss) before tax	**4,894**	**2,919**	**878**

Global Wholesale	**For the year ended December 31,**		
	2009	**2008**	**2008**
		(pro forma)	
		(in millions of R$)	
Net interest income	1,767	1,440	1,214
Income from equity instruments	0	0	0
Share of results of entities accounted for using the equity method	0	0	0
Net fee and commission income	863	641	449
Gains/losses on financial assets and liabilities (net)	859	797	541
Other operating income (expenses)	(23)	(66)	(38)
Gross income	**3,467**	**2,811**	**2,166**
Personnel expenses	(474)	(623)	(404)
Other administrative expenses	(175)	(207)	(130)
Depreciation and amortization of tangible and intangible assets	(39)	(72)	(44)
Provisions (net)	(45)	(38)	(39)
Impairment losses on financial assets (net)	(83)	(37)	(23)
Impairment losses on other assets (net)	0	0	0
Other non-financial gains (losses)	0	0	0
Profit (loss) before tax	**2,651**	**1,835**	**1,526**

Asset Management and Insurance	For the year ended December 31,		
	2009	2008	2008
		(pro forma)	
		(in millions of R$)	
Net interest income	140	72	33
Income from equity instruments	0	0	0
Share of results of entities accounted for using the equity method	0	0	0
Net fee and commission income	405	358	202
Gains/losses on financial assets and liabilities (net)	54	7	7
Other operating income (expenses)	188	(0)	(0)
Gross income	**787**	**437**	**242**
Personnel expenses	(65)	(53)	(40)
Other administrative expenses	(48)	(30)	(22)
Depreciation and amortization of tangible and intangible assets	(34)	(4)	(4)
Provisions (net)	(46)	(32)	(31)
Impairment losses on financial assets (net)	0	0	0
Impairment losses on other assets (net)	(1)	(0)	(0)
Other non-financial gains (losses)	0	0	0
Profit (loss) before tax	**592**	**317**	**145**

Commercial Banking Segment Consolidated Results of Operations for the Year ended December 31, 2009 Compared to the Year ended December 31, 2008

Summary

Profit before income tax attributed to the Commercial Banking segment in 2009 was R$4.9 billion, a R$4.1 billion increase from R$878 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, profit before income tax attributed to the Commercial Banking segment in 2009 increased R$2.0 billion compared to R$2.9 billion in 2008.

Net Interest Income

Net interest income for the Commercial Banking segment in 2009 was R$20.3 billion, a 99% or R$10.1 billion increase from R$10.2 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net interest income for the Commercial Banking segment in 2009 increased 14% compared to R$17.7 billion in 2008. This increase was mainly due to increased average balances of loans and an increase in the average spread of our credit assets over interbank rates.

Share of Results of Entities Accounted for using the Equity Method

Share of results of entities accounted for using the equity method for the Commercial Banking segment in 2009 was R$295 million, a R$183 million increase from R$112 million in 2008. This increase was mainly due to gains of R$126 million from ABN Dois Participações related to the sale of Real Capitalização to Santander Seguros. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, share of results of entities accounted for using the equity method for the Commercial Banking segment in 2009 decreased 3% compared to R$305 million in 2008.

Net Fee and Commission Income

Net fees and commission income for the Commercial Banking segment in 2009 were R$5.0 billion, a 38% or R$1.4 billion increase from R$3.6 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net fees and commission income for the Commercial Banking segment in 2009 increased 2% compared to R$4.9 billion in 2008. This limited growth was mainly due to restrictions on banking fees imposed by our regulators starting in April 2008 which had a negative effect on our banking fees.

Gains/(Losses) on Financial Assets and Liabilities

Gains (losses) on financial assets and liabilities (net) for the Commercial Banking segment in 2009 were gains of R$1.8 billion, a R$2.1 billion increase from losses of R$358 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, gains (losses) on financial assets and liabilities (net) for the Commercial Banking segment in 2009 increased R$1.8 billion compared to losses of R$27 million in 2008. These gains were partially offset by losses recorded under exchange differences and resulting from our foreign currency exposure. The increase in gains in the prior period principally reflected a R$1.8 billion increase in gains on our Cayman Islands investment hedge, which was offset by an increase in income tax expenses, and a R$126 million increase in proceeds from the sale of long-term investments upon the sale of part of our interests in BOVESPA and BM&F in 2008 and 2009.

Other Operating Income/(Expenses)

Other operating income (expenses) for the Commercial Banking segment in 2009 were expenses of R$281 million, compared to expense of R$22 million 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, other operating income (expenses) for the Commercial Banking segment in 2008 amounted to an expense of R$8 million. This change was mainly a result of declines in banking fees for checking accounts and lending/leasing commissions due to limits imposed by the Central Bank starting in May 2008.

Personnel Expenses

Personnel expenses for the Commercial Banking segment increased from R$3.1 billion for the year ended December 31, 2008 to R$5.0 billion in 2009, a 60% or R$1.9 billion increase. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, personnel expenses for the Commercial Banking segment in 2008 decreased from R$4,998 million to R$4,972 million in 2009, a 1% or R$26 million decrease, reflecting the cost synergies resulting from the merger of Santander Brasil and Banco Real partially offset by higher personnel expenses in line with historical trends of salary increases tied to inflation.

Other General Administrative Expenses

Other general administrative expenses for the Commercial Banking segment increased from R$3.5 billion in 2008 to 5.2 billion in 2009, a 49% or R$1.7 billion increase. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, other general administrative expenses for the Commercial Banking segment in 2008 decreased from R$5.6 billion to R$5.2 billion in 2009, a 7% or R$408 million decrease, primarily due to cost synergies resulting from the merger of Santander Brasil and Banco Real.

Impairment Losses on Financial Assets (Net)

Impairment losses on financial assets (net) for the Commercial Banking segment in 2009 were R$9.9 billion, a 142% or R$5.8 billion increase from R$4.1 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, impairment losses on financial assets (net) for the Commercial Banking segment in 2009 increased 51% compared to R$6.6 billion in 2008. This increase was mainly due to the deteriorating credit quality caused by worsening economic conditions in Brazil in the second half of 2008 and the first three quarters of 2009.

Provisions (Net)

Provisions principally include provisions for labor and tax contingences. Provisions (net) for the Commercial Banking segment were R$3.4 billion in 2009, compared to R$1.2 billion in 2008 or R$1.6 billion on a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008. This increase reflected increased provisions for labor and civil claims and provisions for restructuring costs associated with the Banco Real acquisition.

Impairment Losses on Non-Financial Assets (Net)

Other impairment losses on other assets (net) for the Commercial Banking segment in 2009 were R$900 million, a R$822 million increase from R$77 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, impairment losses on other assets (net) for the Commercial Banking segment in 2009 increased 959% compared to R$85 million in 2008. This increase was mainly due to increases in impairment on real properties as a result of closing certain of our office buildings in connection with the expected move to our new headquarters.

Global Wholesale Banking Consolidated Results of Operations for the Year ended December 31, 2009 Compared to the Year ended December 31, 2008

Summary

Profit before income tax attributed to the Global Wholesale Banking segment in 2009 was R$2.6 billion, a 73% or R$1.1 billion increase from R$1.5 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, profit before income tax attributed to the Global Wholesale Banking segment in 2009 increased 44% compared to R$1.8 billion in 2008.

Net Interest Income

Net interest income for the Global Wholesale Banking segment in 2009 was R$1.8 billion, a 45% or R$553 million increase from R$1.2 billion in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net interest income for the Global Wholesale Banking segment in 2009 increased 23% compared to R$1.4 billion in 2008, reflecting growth in the credit portfolio of our GB&M customers, principally trade finance.

Net Fee and Commission Income

Net fees and commission income for the Global Wholesale Banking segment in 2009 was R$863 million, a 92% or R$414 million increase from R$449 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net fees and commission income for the Global Wholesale Banking segment in 2009 increased 35% compared to R$641 million in 2008. This increase was mainly due to an increase in trade finance business commissions resulting from a higher volume of transactions in 2009.

Gains/(Losses) on Financial Assets and Liabilities

Gains (losses) on financial assets and liabilities (net) for the Global Wholesale Banking segment in 2009 were gains of R$859 million, a 59% or R$319 million increase from gains of R$541 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, gains (losses) on financial assets and liabilities (net) for the Global Wholesale Banking segment in 2009 increased 8% compared to gains of R$797 million in 2008. This increase was mainly due to a R$138 million increase in earnings from our proprietary treasury business, partially offset by losses of R$76 million in derivatives transactions for our customers.

Other Operating Income/(Expenses)

Other operating income (expenses) for the Global Wholesale Banking segment in 2009 was expense of R$23 million, compared to expense of R$38 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, other operating income (expenses) for the Global Wholesale Banking segment in 2009 decreased 66% compared to expense of R$66 million in 2008.

Personnel Expenses

Personnel expenses for the Global Wholesale Banking segment increased from R$404 million in 2008 to R$474 million in 2009, a 17% or R$71 million increase. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, personnel expenses for the Global Wholesale Banking segment in 2009 decreased 24% compared to R$623 million in 2008, mainly due to cost synergies resulting from the merger of Santander Brasil and Banco Real.

Other General Administrative Expenses

Other general administrative expenses for the Global Wholesale Banking segment increased from R$130 million in 2008 to R$175 million in 2009, a 35% increase. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, other general administrative expenses for the Global Wholesale Banking segment in 2009 decreased 15% compared to R$207 million in 2008, mainly due to cost synergies resulting from the merger of Santander Brasil and Banco Real.

Impairment Losses on Financial Assets (Net)

Impairment losses on financial assets (net) for the Global Wholesale Banking segment in 2009 with losses of R$83 million, a R$60 million increase in losses from R$23 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, impairment losses on financial assets (net) for the Global Wholesale Banking segment in 2008 were losses of R$37 million.

Provisions (Net)

Provisions (net) for the Global Wholesale Banking segment were losses of R$45 million in 2009, compared to losses of R$39 million in 2008 and on a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008. Provisions principally include provisions for labor and tax contingencies.

Asset Management and Insurance Segment Consolidated Results of Operations for the Year ended December 31, 2009 Compared to the Year ended December 31, 2008

Summary

Profit before income tax attributed to the Asset Management and Insurance segment in 2009 was R$592 million, a 308% or R$447 million increase from R$145 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, profit before income tax attributed to the Asset Management and Insurance segment in 2009 increased 86% compared to R$317 million in 2008. On August 14, 2009, our shareholders transferred certain Brazilian asset management and insurance companies that were previously owned by Santander Spain to Santander Brasil, through a series of share exchange transactions (*incorporações de ações*) in order to consolidate all of the Santander Group's Brazilian insurance and asset management operations into Santander Brasil. See "Summary—Recent Events" and "Business—Asset Management and Insurance." The results of operations for our Asset Management and Insurance segment include the results of these companies as from June 30, 2009.

Net Interest Income

Net interest income for the Asset Management and Insurance segment in 2009 was R$140 million, a 326% or R$107 million increase from R$33 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net interest income for the Asset Management and Insurance segment in 2009 increased 93% compared to R$72 million in 2008. This increase was mainly due to the integration of the asset management and insurance operations transferred to us in August 2009.

Net Fee and Commission Income

Net fees and commission income for the Asset Management and Insurance segment in 2009 were R$405 million, a 100% or R$202 million increase from R$202 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, net fees and commission income for the Asset Management and Insurance segment in 2009 increased 13% compared to R$358 million in 2008. In addition, the level of net fees and commission income increased mainly due to an increase in net commissions on the sale of insurance. This increase is mainly due to the integration of the asset management and insurance transferred to us in August 2009.

Gains/(Losses) on Financial Assets and Liabilities

Gains (losses) on financial assets and liabilities (net) for the Asset Management and Insurance segment in 2009 were gains of R$54 million, a 672% or R$47 million increase from R$7 million in 2008. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, gains/(losses) on financial assets and liabilities (net) for the Asset Management and Insurance segment in 2009 increased R$47 million compared to R$7 million in 2008. This increase is mainly due to the integration of the asset management and insurance operations transferred to us in August 2009.

Other Operating Income/(Expenses)

Other operating income (expenses) for the Asset Management and Insurance segment in the year ended December 31, 2009 presented an income of R$188 million, a R$188 million increase compared to an expense of R$0 in the year ended December 31, 2008. This increase was due to the integration of the asset management and insurance operations transferred to us in August 2009. The change in other operating income (expenses) on a pro forma basis was the same, as this income (expenses) relates to the operations transferred to us in August 2009.

Personnel Expenses

Personnel expenses for the Asset Management and Insurance segment increased from R$40 million in 2008 to R$65 million in 2009, a 64% or R$25 million decrease. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008, personnel expenses for the Asset Management and Insurance segment in 2009 increased 22% compared to R$53 million in 2008, mainly due to cost synergies from the acquisition of Banco Real. This increase is mainly due to the incorporation of Asset and Insurance operations in August 2009, partially offset by the cost synergies resulting from the merger of Santander Brasil and Banco Real.

Other General Administrative Expenses

Other general administrative expenses for the Asset Management and Insurance segment increased from R$22 million in 2008 to R$48 million in 2009, a 119% or R$26 million increase. On a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008 other general administrative expenses increased 60% compared to R$30 million in 2008, mainly due to cost synergies from the acquisition of Banco Real. This increase is mainly due to the integration of the asset management and insurance operations transferred to us in August 2009, offset by the gains from the acquisition of Banco Real.

Provisions (Net)

Provisions (net) for the Asset Management and Insurance segment were R$46 million in 2009 compared to R$31 million in 2008 or R$32 million on a pro forma basis as if the acquisition of Banco Real had occurred as of January 1, 2008. Provisions principally include provisions for labor and tax contingencies. This increase was mainly due to the incorporation of the Asset and Insurance operations in August 2009.

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

As a consequence of our acquisition of Banco Real in August 2008, our results of operations for the years ended December 31, 2007 and 2008 are not comparable. In order to analyze the organic developments in our business we discuss certain full-year 2008 financial information excluding the results of Banco Real as from January 1, 2008. For a complete presentation of this information, see "— Acquisition of Banco Real."

	For the year ended December 31,				
	2008 (excluding Banco Real)	2008	2007	% Change	% Change (excluding Banco Real)
	(in millions of R$)				
Net interest income	6,671	11,438	6,195	84.6	7.7
Income from equity instruments	35	37	36	2.8	(2.8)
Net fees and commissions	3,467	4,254	3,098	37.3	11.9
Share of results of entities accounted for using the equity method	6	112	6	n.m.	–
Gains/losses on financial assets and liabilities (net)	333	(1,287)	1,517	n.m.	(78.0)
Exchange differences (net)	300	1,476	382	286.4	(21.5)
Other operating income (expenses)	(92)	(59)	133	n.m.	(169.2)
Administrative expenses	(4,656)	(7,185)	(4,460)	61.1	4.4
Depreciation and amortization	(656)	(846)	(580)	31.4	13.1
Provisions (net)	(1,113)	(1,230)	(1,196)	2.8	(6.9)
Impairment losses on financial assets (net):	(2,864)	(4,100)	(2,160)	89.9	32.6
Impairment losses on other assets (net)	(4)	(77)	(299)	(74.2)	(98.7)
Gains/losses on disposal of assets not classified as non-current assets held for sale	6	7	1	n.m.	500
Gains/losses on disposal of non-current assets held for sale	25	9	14	(36)	78.6
Profit before tax	1,458	2,549	2,687	(5.1)	(45.7)
Income tax	(217)	(170)	(784)	(78.3)	(72.3)
Net income	1,241	2,379	1,903	25.0	(34.8)

Summary

Net income for the year ended December 31, 2008 was R$2.4 billion, a 25% or R$476 million increase from R$1.9 billion in 2007. The 2008 increase was mainly due to the consolidation of the entities of Banco Real in our financial statements. Excluding the effect of the acquisition of Banco Real, net income for the year ended December 31, 2008 was R$1.2 billion, a 35% or R$662 million decrease from R$1.9 billion in 2007, mainly due to:

- growth in credit volumes and a resulting increase in revenues from lending operations, driven by macro-economic growth in Brazil, although that growth has slowed beginning in the fourth quarter of 2008;
- an increase in income from fees for services, partially offset by limits on banking fees for checking accounts and lending/leasing commissions imposed by the Central Bank starting in 2008;
- a decline in earnings from trading and proprietary investment activities due to adverse market conditions;
- an increase in credit impairment losses, particularly since the fourth quarter of 2008, driven by deteriorating economic conditions; and
- revenues of R$693 million from the sale of investment securities in 2007, compared to R$88 million in 2008.

Net Interest Income

Santander Brasil's net interest income was R$11.4 billion in 2008, an 85% or R$5.2 billion increase from R$6.2 billion in 2007. Excluding the effect of the acquisition of Banco Real, Santander Brasil's net interest income was R$6.7 billion in 2008, an 8% or R$476 million increase from R$6.2 billion in 2007, mainly due to growth in our lending activities, offset in part by a decrease in the average spreads of our credit assets.

Average total earning assets were R$133.7 billion for the year ended December 31, 2008, a 54% or R$46.9 billion increase from $86.8 billion in 2007. Excluding the effect of the acquisition of Banco Real, average total earning assets were R$97.5 billion for the year ended December 31, 2008, a 12% or R$10.7 billion increase from R$86.8 billion in 2007. The principal drivers of this increase were loans and advances to credit institutions, the increase of which was funded with growth of time deposits in excess of commercial lending opportunities. In addition, retail and corporate lending increased, offset in part by a decline in consumer finance lending volumes. The increase in corporate lending was driven principally by increased trade finance and was concentrated in the Global Wholesale Banking segment. The increase in retail lending was driven principally by credit cards and overdrafts. The decline in consumer finance lending was principally due to declining volumes of auto financing, reflecting declining consumer confidence in the face of economic conditions, particularly in the fourth quarter of 2008.

The effect of this substantial growth in interest earning assets was offset in part by a 30 basis point decline in the spread of the average yield earned on our interest earning credit assets over the average cost of interbank funding. This spread is the way we evaluate the yield earned on our assets. The decline in this spread reflects the change in mix resulting from the movements described above, which led to a greater proportion of interest earning assets being comprised of relatively lower-yielding corporate loans. The effect of this decline in spread was exacerbated by increased cost of funds, driven by the rapid growth in time deposits, which increased as a proportion of total funding.

Average total interest bearing liabilities were R$109.4 billion for the year ended December 31, 2008, a 58% or R$40.2 billion increase from R$69.2 billion in 2007. Excluding the effect of the acquisition of Banco Real, average total interest bearing liabilities were R$80.4 billion for the year ended December 31, 2008, a 16% or R$11.2 billion increase from R$69.2 billion in 2007. The principal driver of this increase was time deposits, the average balance of which (excluding Banco Real) grew by 44% to R$35.1 billion. This growth resulted from a movement of customer funds out of mutual funds and other similar vehicles into lower-risk bank deposits as well as a “flight to quality” as Brazilian customers moved their savings to larger financial institutions.

Net Fees and Commission Income

Net fees and commission income was R$4.3 billion in 2008, a 37% or R$1.2 billion increase from R$3.1 billion in 2007. Excluding the effect of the acquisition of Banco Real, net fees and commission income was R$3.5 billion in 2008, a 12% or approximately R$369 million increase from R$3.1 billion in 2007, mainly due to a R$205 million increase in net commissions on the sale of insurance and a R$70 million increase in our trade finance business. The growth in insurance sales commissions reflects an increased focus on this line of business by management. The decline in banking fees other than overdraft fees reflects restrictions on these fees imposed by our regulators during 2008.

The following table reflects the breakdown of net fee and commission income in 2008 and 2007, excluding Banco Real.

	For the Year Ended December 31,		
	2008	2007	% Change
		(In millions of R$)	
Banking fees	1,485	1,478	0.5
Sale of insurance	652	447	45.9
Investment funds	523	515	1.6
Credit and debit cards	338	297	13.8
Capital markets	243	257	(5.4)
Trade finance	176	106	66.0
Tax on services	(173)	(154)	12.3
Others	223	152	46.7
Total	**3,467**	**3,098**	**11.9**

Share of Results of Entities Accounted for Using the Equity Method

Share of results of entities accounted for using the equity method was R$112 million in 2008, a R$106 million increase from R$6 million in 2007. Excluding the effect of the acquisition of Banco Real, share of results of entities accounted for using the equity method was R$6 million in 2008, unchanged from 2007.

Gains (Losses) on Financial Assets and Liabilities (Net)

Gains/losses on financial assets and liabilities (net) changed to a loss of R$1.3 billion in 2008 from a gain of R$1.5 billion in 2007. Excluding the effect of the acquisition of Banco Real, gains/losses on financial assets and liabilities (net) was a gain of R$334 million in 2008, a 78% decrease from a gain of R$1.5 billion in 2007. This decline was largely driven by adverse market conditions and principally reflected the following results: a R$854 million decline in treasury results (market making, trading and short-term proprietary investing), a R$441 million decline in proceeds from the sale of long-term investments due to the nonrecurrence in 2008 of gains realized upon the sale of part of our interests in BOVESPA and BM&F in 2007 and a R$650 million decline in other long-term positions associated with our balance sheet management. These declines were offset in part by a R$383 million increase in earnings on the provision of derivatives to customers, due to increased volumes in this line of business as demand grew for hedging products that allow customers to control their exposure to volatile markets.

Exchange Differences (Net)

Exchange differences (net) was R$1.5 billion in 2008, a 286% increase from R$382 million in 2007. Excluding the effect of the acquisition of Banco Real, exchange differences (net) was R$300 million in 2008, a 22% decrease from R$382 million in 2007. These gains were largely offset by losses on derivative transactions entered into to hedge our foreign currency exposure. Such losses are recorded under "Gains/losses on financial assets and liabilities."

Other Operating Income (Expenses)

Other operating income (expenses) declined from income of R$133 million in 2007 to expense of R$60 million in 2008, or expense of R$92 million excluding Banco Real, principally reflecting the elimination in May 2008 of fees related to certain loans due to new regulations by the Central Bank.

Administrative Expenses

Administrative expenses increased from R$4.5 billion in 2007 to R$7.2 billion in 2008, or expense of R$4.7 billion excluding Banco Real, reflecting higher personnel expenses in line with historical trends of salary increases tied to inflation and increases in other general expenses.

Personnel expenses

The following table sets forth personnel expenses for each of the periods indicated.

	Year Ended December 31,	
	2008	2007
	(in millions of $R)	
Wages and salaries	2,253	1,483
Social security costs	569	354
Additions to provisions for defined benefit pension plans	45	38
Contributions to defined contribution pension funds	33	4
Share-based payment costs(1)	89	31
Benefits	423	294
Other personnel expenses	134	179
Total	**3,548**	**2,384**

(1) Granted typically to members of our board of directors and to our executive directors and officers.

Other general expenses

Other general expenses increased from R$2.1 billion in 2007 to R$3.6 billion in 2008, or expense of R$2.3 billion excluding Banco Real, mainly due to expenses relating to expanding our credit card business and improving our information systems platform and the effects of inflation on our contracts with providers, many of which are indexed to inflation.

Provisions (Net)

Provisions (net) was R$1.2 billion in 2008, unchanged from R$1.2 billion in 2007. Excluding the effect of the acquisition of Banco Real, provisions (net) was R$1.1 billion in 2008. Provisions principally include provisions for labor and tax contingencies.

Impairment Losses on Financial Assets (Net)

Impairment losses on financial assets (net) was R$4.1 billion in 2008, a 86% or R$1.9 billion increase from R$2.2 billion in 2007. Excluding the effect of the acquisition of Banco Real, impairment losses (net) was R$2.9 billion in 2008, a 33% or R$705 million increase from 2007, reflecting deteriorating credit quality in nearly all our businesses (though primarily in small companies, individual lending and consumer finance products) as a result of worsening economic conditions in Brazil.

Non-performing assets were R$7.7 billion at December 31, 2008, a 267% increase from R$2.1 billion at December 31, 2007. Excluding the effect of the acquisition of Banco Real, non-performing assets were R$3.0 billion at December 31, 2008, a 43% increase from R$2.1 billion at December 31, 2007. Non-performing assets increased across all our businesses, although principally in retail banking and consumer finance. Deteriorating economic conditions resulted in an accelerated increase in non-performing assets in the third and fourth quarters of 2008. Non-performing assets grew by R$4.4 billion, or 204%, and R$1.1 billion, or 17%, in the third and fourth quarter, respectively. Excluding Banco Real, non-performing assets increased by R$424 million (20%) and R$438 million (17%) in those periods.

The following table shows the ratio of our impaired assets to total computable credit risk and our coverage ratio on December 31, 2008 and 2007.

	At December 31,	
	2008	**2007**
	(in millions of R$, except percentages)	
Computable credit risk(1)	164,695	64,558
Non-performing assets	7,730	2,093
Allowances for credit losses	8,181	2,249
Ratios		
Non-performing assets to computable credit risk	4.7%	3.2%
Coverage ratio(2)	105.8%	107.5%

(1) Computable credit risk is the sum of the face amounts of loans and leases (including non-performing assets but excluding country risk loans), guarantees and documentary credits.
(2) Allowances for credit losses as a percentage of non-performing assets.

Our coverage ratio on December 31, 2008 was 105.8% (after giving effect to the acquisition of Banco Real) and 102.8% (without giving effect to the acquisition of Banco Real) compared to 107.5% on December 31, 2007. The following table shows our non-performing assets by type of loan on December 31, 2008 and 2007.

	At December 31,		
	2008 (Excluding Banco Real)	**2008**	**2007**
	(In millions of R$)		
Impaired assets			
Commercial, financial and industrial	770	2,730	502
Real estate — mortgage	20	74	23
Installment loans to individuals	2,221	4,528	1,558
Lease financing	12	398	10
Total	**3,023**	**7,730**	**2,093**

Commercial, financial and industrial

Non-performing assets in commercial, financial and industrial loans increased by R$2.2 billion from December 31, 2007 to December 31, 2008. Excluding the effect of the acquisition of Banco Real, nonperforming assets in commercial, financial and industrial loans increased R$268 million in 2008, due primarily to higher rates of default by certain of our customers, primarily customers affected by the global financial market crisis, including real estate developers and certain export companies that were highly leveraged in foreign currency.

Real estate — mortgage

Non-performing assets in real estate — mortgage loans increased by R$41 million from December 31, 2007 to December 31, 2008. Excluding the effect of the acquisition of Banco Real, real estate — mortgage loans remained stable, with a slight decrease of R$3 million from December 31, 2007 to December 31, 2008.

Installment loans to individuals

Non-performing assets in installment loans to individuals increased by R$3.0 billion from December 31, 2007 to December 31, 2008. Excluding the effect of the acquisition of Banco Real, non-performing assets in installment loans to individuals increased by R$663 million. This increase was due primarily to the increase in unemployment during the last quarter of 2008 and in the first few months of 2009, which led to higher rates of default by individual borrowers.

Lease financing

Non-performing loans in lease financing increased by R$388 million from December 31, 2007 to December 31, 2008. Excluding the effect of the acquisition of Banco Real, non-performing loans in lease financing increased by R$2 million, due primarily to reclassification of certain amounts that were classified under a different line item in 2007 as "lease financing" in 2008. Management has sought to control losses related to non-performing loans in lease financing by implementing stricter credit approval policies, including lending only for newer vehicles and requiring higher collateral levels for new loan originations.

Impairment Losses on Other Assets (Net)

Other impairment losses on other assets (net) was R$77 million in 2008, a 74% or R$221 million decrease from R$298 million in 2007. Excluding the effect of the acquisition of Banco Real, impairment losses (net) was R$4 million in 2008, a R$294 million decrease from 2007, mainly reflecting reduced impairment charges relating to goodwill and other intangible assets due to impairment charges taken in 2007 related to software for the Banespa information technology platform the use of which was discontinued when the platform was converted to the Santander platform.

Income Tax

Income tax was R$170 million in 2008, a 78% or R$614 million decrease from R$784 million in 2007. Excluding the effect of the acquisition of Banco Real, we had an income tax credit of R$217 million in 2008. Our effective tax rates, excluding Banco Real, in 2007 and 2008 were 29% and 15%, respectively. The decrease in effective tax rate reflected the impact of devaluation of the *real* on the net equity of our Cayman Island branch. The real declined in value against the dollar by 43% in the last four months of 2008, following our acquisition of this branch in connection with the Banco Real acquisition. The impact of this devaluation was a reduction of R$681 million of income tax expense. See "— Other Factors Affecting Financial Condition and Results of Operations — Cayman Offshore Hedging". In addition, the effective tax rate was reduced by the use of available tax credits of R$125 million compared to R$27 million in 2007. As of December 31, 2008, we had R$130 million of such tax credits remaining which have no expiration date.

Results of Operations by Segment for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

The following tables present an overview of certain income statement data for each of our operating segments for the years ended December 31, 2008 and 2007.

	For the year ended December 31, 2008						
	Commercial Banking	% of Total	Global Wholesale Banking	% of Total	Asset Management and Insurance	% of Total	Total
	(thousands of R$, except percentages) (condensed income statement)						
Net interest income	10,191,650	89.1	1,213,502	10.6	32,817	0.3	11,437,969
Share of results of entities accounted for using the equity method	112,330	100.0	–	–	–	–	112,330
Net fee and commission income	3,602,255	84.7	449,289	10.6	202,159	4.8	4,253,703
Gains/losses on financial assets and liabilities	(358,011)	(188.8)	540,636	285.0	7,041	3.7	189,666
Other operating income/(expenses)	(21,570)	36.1	(37,782)	63.2	(465)	0.8	(59,817)
Personnel expenses	(3,104,942)	87.5	(403,671)	11.4	(39,549)	1.1	(3,548,162)
Other administrative expenses	(3,485,160)	95.8	(129,640)	3.6	(21,975)	0.6	(3,636,775)
Impairment losses on financial assets (net)	(4,076,108)	99.4	(23,176)	0.6	–	–	(4,099,284)
Provisions (net)	(1,160,918)	94.4	(38,638)	3.1	(30,761)	2.5	(1,230,317)
Impairment losses on non-financial assets (net)	(77,267)	100.0	–	–	(10)	–	(77,277)
Profit (loss) before tax	877,525	34.4	1,526,455	59.9	144,853	5.7	2,548,833

	For the year ended December 31, 2007						
(Condensed) Income Statement	Commercial Banking	% of Total	Global Wholesale Banking	% of Total	Asset Management and Insurance	% of Total	Total
	(thousands of R$, except percentages) (condensed income statement)						
Net interest income	5,491,818	88.6	693,259	11.2	10,209	0.2	6,195,286
Share of results of entities accounted for using the equity method	5,884	100.0	–	–	–	–	5,884
Net fee and commission income	2,694,428	87.0	253,022	8.2	150,522	4.9	3,097,972
Gains/losses on financial assets and liabilities	944,229	49.7	950,485	50.1	3,537	0.2	1,898,251
Other operating income/(expenses)	143,362	107.9	(10,412)	(7.8)	(26)	–	132,924
Personnel expenses	(2,071,426)	86.9	(277,737)	11.6	(35,104)	1.5	(2,384,267)
Other administrative expenses	(1,963,009)	94.6	(95,500)	4.6	(17,441)	0.8	(2,075,950)
Impairment losses on financial assets (net)	(2,164,523)	100.2	5,075	(0.2)	11	–	(2,159,437)
Provisions (net)	(1,192,553)	99.7	7,654	(0.6)	(11,513)	1.0	(1,196,412)
Impairment losses on non-financial assets (net)	(298,085)	100.0	–	–	3	–	(298,082)
Profit (loss) before tax	1,111,883	41.4	1,482,819	55.2	92,439	3.4	2,687,141

The following tables show our results of operations for the year ended December 31, 2008 for each of our operating segments, the amount contributed by Banco Real to each segment during the period, and the reported results of each segment including amounts contributed by Banco Real.

	For the Year Ended December 31, 2008		
Commercial Banking	**As Reported Less Banco Real**	**Banco Real**	**As Reported**
		(In thousands of R$)	
Net interest income	5,602,063	4,589,587	10,191,650
Income from equity instruments	35,281	1,691	36,972
Share of results of entities accounted for using the equity method	6,062	106,268	112,330
Net fee and commission income	2,948,287	653,968	3,602,255
Gains/losses on financial assets and liabilities (net)	180,005	(538,016)	(358,011)
Other operating income (expenses)	(73,833)	52,264	(21,570)
Total income	8,697,865	4,865,762	13,563,627
Personnel expenses	(2,020,897)	(1,084,046)	(3,104,942)
Other administrative expenses	(2,213,667)	(1,271,494)	(3,485,160)
Depreciation and amortization of tangible and intangible assets	(622,602)	(174,934)	(797,536)
Provisions (net)	(1,042,570)	(118,347)	(1,160,918)
Impairment losses on financial assets (net)	(2,851,106)	(1,225,002)	(4,076,108)
Impairment losses on other assets (net)	(4,384)	(72,883)	(77,267)
Other non-financial gains (losses)	31,323	(15,493)	15,830
Profit (loss) before tax	(26,037)	903,562	877,525

	For the Year Ended December 31, 2008		
Global Wholesale Banking	**As Reported Less Banco Real**	**Banco Real**	**As Reported**
		(In thousands of R$)	
Net interest income	1,059,853	153,649	1,213,502
Income from equity instruments	–	–	–
Share of results of entities accounted for using the equity method	–	–	–
Net fee and commission income	345,303	103,986	449,282
Gains/losses on financial assets and liabilities (net)	445,100	95,536	540,636
Other operating income (expenses)	(16,864)	(20,918)	(37,782)
Total income	1,833,392	332,253	2,165,645
Personnel expenses	(285,376)	(118,295)	(403,671)
Other administrative expenses	(88,351)	(41,288)	(129,640)
Depreciation and amortization of tangible and intangible assets	(29,342)	(14,723)	(44,065)
Provisions (net)	(40,634)	1,996	(38,638)
Impairment losses on financial assets (net)	(13,034)	(10,142)	(23,176)
Impairment losses on other assets (net)	–	–	–
Other non-financial gains (losses)	–	–	–
Profit (loss) before tax	1,376,655	149,800	1,526,455

	For the Year Ended December 31, 2008		
Asset Management and Insurance	**As Reported Less Banco Real**	**Banco Real**	**As Reported**
		(In thousands of R$)	
Net interest income	9,193	23,624	32,817
Income from equity instruments	–	–	–
Share of results of entities accounted for using the equity method	–	–	–
Net fee and commission income	173,014	29,145	202,159
Gains/losses on financial assets and liabilities (net)	7,041	–	7,041
Other operating income (expenses)	(540)	74	(465)
Total income	188,708	52,843	241,551
Personnel expenses	(32,667)	(6,882)	(39,549)
Other administrative expenses	(14,682)	(7,293)	(21,975)
Depreciation and amortization of tangible and intangible assets	(4,404)	–	(4,404)
Provisions (net)	(30,046)	(716)	(30,761)
Impairment losses on financial assets (net)	–	–	–
Impairment losses on other assets (net)	–	(10)	(10)
Other non-financial gains (losses)	–	–	–
Profit (loss) before tax	106,910	37,943	144,853

Commercial Banking Segment Consolidated Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Summary

Profit before income tax attributed to the Commercial Banking segment for the year ended December 31, 2008 was R$877 million, a R$235 million decrease from R$1.1 billion in 2007. Excluding the effect of the acquisition of Banco Real, profit before income tax attributed to the Commercial Banking segment for the year ended December 31, 2008 was a loss of R$26 million, a R$1,138 million decrease from R$1,112 million in 2007.

Net Interest Income

Net interest income for the Commercial Banking segment was R$10.2 billion in 2008, a 86% or R$4.7 billion increase from R$5.5 billion in 2007. Excluding the effect of the acquisition of Banco Real, net interest income for the Commercial Banking segment was R$5.6 billion in 2008, a 2% or R$0.1 billion increase from R$5.5 billion in 2007, mainly due to growth in our lending activities, offset in part by a decrease in the average spread of our credit assets as the proportion of lending to individuals in the mix declined, and increasing market rates of interest, which were reflected in the new time deposits during the period.

Share of Results of Entities Accounted for using the Equity Method

Share of results of entities accounted for using the equity method for the Commercial Banking segment was R$112 million in 2008, a R$106 million increase from R$6 million in 2007. Excluding the effect of the acquisition of Banco Real, share of results of entities accounted for using the equity method for the Commercial Banking segment was R$6 million, unchanged from 2007.

Net Fee and Commission Income

Net fee and commission income for the Commercial Banking segment was R$3.6 billion in 2008, a 34% or R$908 million increase from R$2.7 billion in 2007. Excluding the effect of the acquisition of Banco Real, net fee and commission income for the Commercial Banking segment was R$2.9 billion in 2008, a 9% or R$250 million increase from R$2.7 billion in 2007, mainly due to increased commissions on the sale of insurance by our retail banking branches, offset in part by the effect of new restrictions on other banking fees.

Gains/(Losses) on Financial Assets and Liabilities

Gains/(losses) on financial assets and liabilities for the Commercial Banking segment amounted to a loss of R$358 million in 2008, a R$1.3 billion decrease from a gain of R$944 million in 2007. Excluding the effect of the acquisition of Banco Real, gains/(losses) on financial assets and liabilities for the Commercial Banking segment were R$180 million in 2008, a R$764 million decrease from R$944 million in 2007, mainly due to higher revenues from non-recurring items in 2007 compared to 2008, primarily our sale of investment securities in BM&F and BOVESPA. Losses in Banco Real were principally due to a hedge related to our Cayman Island branch investment, the results of which are largely offset by reduced income taxes. See "— Other Factors Affecting Financial Condition and Results of Operations — Cayman Offshore Hedging".

Other Operating Income/(Expenses)

Other operating income/(expenses) for the Commercial Banking segment amounted to an expense of R$21 million in 2008, a R$165 million decrease from a gain of R$143 million in 2007. Excluding the effect of the acquisition of Banco Real, other operating income/(expenses) for the Commercial Banking segment amounted to an expense of R$74 million 2008, a R$217 million decrease from a gain of R$143 million in 2007, mainly reflecting the elimination in May 2008 of fees related to certain loans due to new regulations by the Central Bank.

Personnel Expenses

Personnel expenses for the Commercial Banking segment increased from R$2.1 billion in 2007 to R$3.1 billion in 2008, a 48% or R$1 billion increase. Excluding the effect of the acquisition of Banco Real, personnel expenses for the Commercial Banking segment were R$2.0 billion, a 2% or R$50 million decrease from R$2.1 billion in 2007, mainly due to the streamlining of our operations in anticipation of obtaining cost synergies from the acquisition of Banco Real.

Other General Administrative Expenses

Other general administrative expenses for the Commercial Banking segment increased from R$2 billion in 2007 to R$3.5 billion in 2008, a 78% or R$1.5 billion increase. Excluding the effect of the acquisition of Banco Real, other general administrative expenses for the Commercial Banking segment were R$2.2 billion, a 13% or R$250 million increase from R$2 billion in 2007, mainly due to expenses relating to expanding our credit card business and improving our information systems platform and the effects of inflation on our contracts with providers, many of which are indexed to inflation.

Impairment Losses on Financial Assets (Net)

Impairment losses on financial assets (net) for the Commercial Banking segment was R$4.1 billion in 2008, a 90% or R$1.9 billion increase from R$2.2 billion in 2007. Excluding the effect of the acquisition of Banco Real, impairment losses (net) for the Commercial Banking segment was R$2.9 billion in 2008, a 33% or R$705 million increase from 2007, reflecting deteriorating credit quality in nearly all areas of our Commercial Banking segment (though primarily in small companies, individual lending and consumer finance products) as a result of worsening economic conditions in Brazil.

Provisions (Net)

Provisions (net) for the Commercial Banking segment was R$1.2 billion in 2008, unchanged from R$1.2 billion in 2007. Excluding the effect of the acquisition of Banco Real, provisions (net) for the Commercial Banking segment was R$1.0 billion in 2008. Provisions principally include provisions for labor and tax contingencies.

Impairment Losses on Non-Financial Assets (Net)

Other impairment losses on other assets (net) for the Commercial Banking segment was R$77 million in 2008, a 74% or R$221 million decrease from R$298 million in 2007. Excluding the effect of the acquisition of Banco Real, impairment losses (net) for the Commercial Banking segment was R$4 million in 2008, a R$294 million decrease from 2007, mainly reflecting reduced impairment charges relating to intangible assets due to impairment charges taken in 2007 related to software for the Banespa information technology platform the use of which was discontinued when the information technology system was converted to the Santander platform.

Global Wholesale Banking Consolidated Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Summary

Profit before income tax attributed to the Global Wholesale Banking segment for the year ended December 31, 2008 was R$1,526 million, a R$43 million increase from R$1,483 million in 2007. Excluding the effect of the acquisition of Banco Real, profit before income tax attributed to the Global Wholesale Banking segment for the year ended December 31, 2008 was R$1,377 million, a 7% or R$106 million decrease from R$1,483 million in 2007.

Net Interest Income

Net interest income for the Global Wholesale Banking segment was R$1.2 billion in 2008, a 75% or R$520 million increase from R$693 million in 2007. Excluding the effect of the acquisition of Banco Real, net interest income for the Global Wholesale Banking segment was R$1,060 million in 2008, a 53% or R$367 million increase from R$693 million in 2007, reflecting growth in the credit portfolios of our GB&M customers and increased in net interest income from our treasury business.

Net Fee and Commission Income

Net fee and commission income for the Global Wholesale Banking segment was R$449 million in 2008, a 78% or R$196 million increase from R$253 million in 2007. Excluding the effect of the acquisition of Banco Real, net fee and commission income for the Global Wholesale Banking segment was R$345 million in 2008, a 36% or R$92 million increase from R$253 million in 2007, mainly due to an increase in net commissions for foreign trading operations resulting from a higher volume of transactions in 2008 compared to 2007 and higher fee commissions from guarantees and brokerage businesses.

Gains/(Losses) on Financial Assets and Liabilities

Gains on financial assets and liabilities for the Global Wholesale Banking segment were R$541 million in 2008, a 43% or R$410 million decrease from R$951 million in 2007. Excluding the effect of the acquisition of Banco Real, gains/(losses) on financial assets and liabilities for the Global Wholesale Banking segment were R$445 million in 2008, a 53% or R$505 million decrease from R$951 million in 2007, mainly due to decrease in gains on financial assets and liabilities in our treasury business.

Other Operating Income/(Expenses)

Other operating expenses for the Global Wholesale Banking sector were expenses of R$38 million in 2008, a 263% or R$28 million increase from expenses of R$10 million in 2007. Excluding the effect of the acquisition of Banco Real, other operating income/(expenses) for the Global Wholesale Banking segment amounted to expenses of R$17 million in 2008, a 62% or R$7 million increase from expenses of R$10 million in 2007, mainly due to higher expenses for deposit insurance as a result of increases in time deposits.

Personnel Expenses

Personnel expenses for the Global Wholesale Banking segment increased from R$278 million in 2007 to R$404 million in 2008, a 45% or R$126 million increase. Excluding the effect of the acquisition of Banco Real, personnel expenses for the Global Wholesale Banking segment were R$285 million in 2008, a 3% or R$7 million increase from R$278 million in 2007, reflecting higher costs in line with annual salary increases tied to inflation.

Other General Administrative Expenses

Other general administrative expenses for the Global Wholesale Banking segment increased from R$96 million in 2007 to R$130 million in 2008, a 36% or R$34 million increase. Excluding the effect of the acquisition of Banco Real, other general administrative expenses for the Global Wholesale Banking segment were R$88 million in 2008, a 7% or R$7 million decrease from R$96 million in 2007, reflecting our cost control targets.

Impairment Losses on Financial Assets (Net)

Impairment losses on financial assets (net) for the Global Wholesale Banking segment were R$23 million in 2008, compared to a gain of R$5 million in 2007. Excluding the effect of the acquisition of Banco Real, impairment losses on financial assets (net) for the Global Wholesale Banking segment were R$13 million in 2008, compared to a gain of R$5 million in 2007, mainly due to increased delinquency by our wholesale customers as a result of the global financial crisis.

Provisions (Net)

Provisions (net) for the Global Wholesale Banking segment were R$39 million in 2008, compared to a gain of R$8 million in 2007. Excluding the effect of the acquisition of Banco Real, provisions (net) for the Global Wholesale Banking segment were R$41 million in 2008, compared to a gain R$8 million in 2007.

Asset Management and Insurance Segment Consolidated Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Summary

Profit before income tax attributed to the Asset Management and Insurance segment for the year ended December 31, 2008 was R$145 million, a R$53 million increase from R$92 million in 2007. Excluding the effect of the acquisition of Banco Real, profit before income tax attributed to the Asset Management and Insurance segment for the year ended December 31, 2008 was R$107 million, a 16% or R$15 million increase from R$92 million in 2007. Results of operations in our Asset Management and Insurance segment in 2008 and 2007 do not include the results of operations of the asset management and insurance entities that were acquired on August 14, 2009. See "Summary — Recent Events —Acquisition of Asset Management and Insurance Companies" and "Business — Asset Management and Insurance".

Net Interest Income

Net interest income for the Asset Management and Insurance segment was R$33 million in 2008, a 221% or R$23 million increase from R$10 million in 2007. Excluding the effect of the acquisition of Banco Real, net interest income for the Asset Management and Insurance segment was R$9 million in 2008, a 10% or R$1 million decrease from R$10 million in 2007. The decrease was due primarily to lower cash volumes in 2008 compared to 2007.

Net Fee and Commission Income

Net fee and commission income for the Asset Management and Insurance segment was R$202 million in 2008, a 34% or R$52 million increase from R$151 million in 2007. Excluding the effect of the acquisition of Banco Real, net fee and commission income for the Asset Management and Insurance segment was R$173 million in 2008, a 15% or R$23 million increase from R$151 million in 2007, mainly due to an increase in net commissions on the sale of insurance.

Gains/(Losses) on Financial Assets and Liabilities

Gains on financial assets and liabilities for the Asset Management and Insurance segment were R$7.0 million in 2008, a 100% or R$3.5 million increase from R$3.5 million in 2007, mainly due to an increase in revenues from the available-for-sale financial assets. The acquisition of Banco Real did not have any impact on this item in our financial statements.

Other Operating Income/(Expenses)

Other operating expenses for the Asset Management and Insurance segment were R$465 thousand in 2008, a R$439 thousand increase from R$26 thousand in 2007. Excluding the effect of the acquisition of Banco Real, other operating income/(expenses) for the Asset Management and Insurance segment was income of R$540 thousand in 2008, compared to an expense of R$26 thousand in 2007.

Personnel Expenses

Personnel expenses for the Asset Management and Insurance segment increased from R$35 million in 2007 to R$4 million in 2008, a 13% or R$4 million increase. Excluding the effect of the acquisition of Banco Real, personnel expenses for the Asset Management and Insurance segment were R$33 million in 2008, an 7% or R$2 million decrease from R$35 million in 2007, mainly due to the streamlining of our employee operations in anticipation of producing cost synergies from the acquisition of Banco Real.

Other General Administrative Expenses

Other general administrative expenses for the Asset Management and Insurance segment increased from R$17 million in 2007 to R$22 million in 2008, a 26% or R$5 million increase. Excluding the effect of the acquisition of Banco Real, other general administrative expenses for the Asset Management and Insurance segment were R$15 million in 2008, a 16% or R$3 million decrease from R$17 million in 2007, mainly due to operations streamlining carried out in anticipation of obtaining cost synergies from the acquisition of Banco Real.

Provisions (Net)

We recorded provisions (net) in the Asset Management and Insurance segment in 2008 of R$31 million compared to provisions (net) of R$12 million in 2007. Excluding the effect of the acquisition of Banco Real, provisions (net) for the Asset Management and Insurance segment were R$30 million in 2008, a 161% or R$18 million increase from R$12 million.

New Accounting Pronouncements

Adoption of new standards and interpretations

All standards and interpretations which came into force were adopted by the Bank in 2009. The following are the standards and interpretations applicable to the Bank and adopted in 2009:

Revision of IAS 1 Presentation of Financial Statements: introduces certain changes in the presentation of financial statements, including changes to the titles of individual financial statements, as described below. The statement of changes in equity will only include changes in equity arising from transactions with owners acting in their capacity as owners. With respect to "non-owner" changes (e.g. transactions with third parties or income and expenses recognized directly in equity), entities are no longer permitted to present items of other comprehensive income separately in the statements of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity. All items of income and expense (including those recognized outside of profit or loss) must be presented either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement and a statement of comprehensive income). IAS 1 also introduces new reporting requirements when the entity applies a change in accounting policy retrospectively, makes a restatement or reclassifies items in previously issued statements.

Paragraph 10 of the revised IAS 1 provides the possibility of changing the names of the financial statements. The new terminology which may be used to refer to the financial statements is as follows:

- The balance sheet becomes the statement of financial position.
- The statement of recognized income and expense becomes the statement of comprehensive income.
- The statement of cash flows remains the same.

In preparing these financial statements the Bank has retained the names of the financial statements used in the consolidated financial statements for 2008.

Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation: the amendments address the classification of puttable financial instruments and obligations arising only on liquidation. Following the amendments, these instruments are presented as equity provided that they meet certain criteria including that of being the most subordinated class, and provided that they evidence a residual interest in the net assets of the entity.

Amendments to IFRS 1 and IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate: this amendment refers to separate financial statements and, therefore, is not applicable to consolidated financial statements.

Amendment to IFRS 7 Financial Instruments: the objective of this amendment aims to increase disclosure requirements, including the requirements for disclosure of fair value measurements and liquidity risk.

Amendment to IAS 39 and IFRIC 9 clarifying the treatment of embedded derivatives for companies which have made use of the Amendment to IAS 39 on reclassifications, issued by the IASB. These amendment clarifies that in a reclassification of an asset in the "financial assets at fair value through profit or loss" category all the embedded derivatives must be measured and, where necessary, accounted for separately in the financial statements.

IFRIC 13 Customer Loyalty Programmes: this interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards as part of a sales transaction, such as credit card reward schemes.

Amendments to IAS 39, Eligible Hedged Items: These amendments establishes that inflation may only be designated as a hedged item if it is a contractually specified portion of the cash flows to be hedged. Only the intrinsic value and not the time value of a purchased option may be used as a hedge instrument.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation: this interpretation clarifies the following matters: (i) the exposure to foreign exchange differences between the functional currency of the foreign operation and the presentation currency of the parent cannot be designated as a hedged risk, and only the foreign currency exposure arising between the functional currency of the parent and that of its foreign operation qualifies for hedge accounting; (ii) the hedging instrument used to hedge the net investment may be held by any entity within the group, not necessarily by the parent of the foreign operation; and, (iii) it addresses how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item on disposal of the foreign operation.

IFRS 2, 'Share-based payment' – Vesting conditions and cancellations The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company.

Improvements to IFRS' were issued in May 2008. The improvements contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009, with earlier application permitted. The adoption of the above mentioned standards and interpretations did not have a material effect on the consolidated financial statements taken as a whole.

Standards and interpretations effective subsequent to December 31, 2009

The Bank has not yet adopted the following new or revised IFRS standards or interpretations, which have been issued but their effective date is subsequent to the date of our consolidated financial statements:

IFRS 9 – Financial Instruments: Recognition and Measurement – The main changes of IFRS 9 compared to IAS 39 are: (i) all financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs; (ii) new requirements for classifying and measuring financial assets – the standard divides all financial assets that are currently in the scope of IAS 39 in two classifications: amortized cost and fair value; (iii) the IAS 39's available for sale and held to maturity categories were eliminated; and (iv) the embedded derivatives concept of IAS 39 is not included in IFRS 9.

Amendments to IFRS 2 – The amendments to IFRS 2 provide additional guidance on the accounting for share-based payment transactions among group entities (incorporating guidance previously contained in IFRIC 11).

Revision of IFRS 3 Business Combinations and Amendment to IAS 27 Consolidated and Separate Financial Statements – introduce significant changes in several matters relating to accounting for business combinations, and are only applied prospectively. These changes include the following: (i) acquisition costs must be expensed, rather than recognized as an increase in the cost of the business combination; (ii) in step acquisitions the acquirer must remeasure at fair value the investment held prior to the date that control is obtained; and (iii) there is an option to measure at fair value the minority interests of the acquiree, as opposed to the single current treatment of measuring them as the proportionate share of the fair value of the net assets acquired.

Revision to IAS 32: Classification of Rights Issues – Under the amendment to IAS 32 rights, options and warrants – otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

IAS 38 Intangible Assets – Amendments to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – This IFRIC has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognize prepayments of minimum funding contributions as an asset. Entities shall apply this Interpretation prospectively for annual periods beginning on or after January 1, 2011. The Bank's management estimates that the application of the amendments of IFRIC 14 will not have a material effect on the Bank's financial condition or results of operations.

IFRIC 17 Distributions of Non-cash Assets to Owners – The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 18 Transfers if Assets from Customers – The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from "customers" and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognize the asset at its fair value on the date of the transfer, with the credit recognized as revenue in accordance with IAS 18 Revenue.

Improvements to IFRS 'Improvements to IFRS' were issued in April 2009. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2010, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

Revision of IFRS 5 Non Current Assets Held for Sale and Discontinued Operation – Amendment to clarify that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

Revision of IFRS 8 Operating Segments – Amendment to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker.

Revision of IAS 1 Presentation of Financial Statements – Clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

Revision of IAS 7 Statement of Cash Flows – Amendment to require that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities.

Revision of IAS 17 Leases – Deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17.

Revision of IAS 24 Related Party Disclosures – The revision of IAS 24 clarifies the definition of related parties.

Revision of IAS 36 Impairment of Assets – Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 Operating Segments.

Revision of IAS 39 Financial Instruments: Recognition and Measurement – Amendments to clarify (i) that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract; (ii) it only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date, the term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction and the exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions; (iii) when to recognize gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss; (iv) changes in impairment of financial assets as mentioned in the Exposure Draft 2009/12; and (v) changes in the requirements of derecognition of financial assets as mentioned in the Exposure Draft 2009/3.

We do not expect the adoption of the above-mentioned standards and interpretations to have a material effect on the consolidated financial statements taken as a whole.

Liquidity and Capital Resources

In line with the Santander Group's global funding policy, we primarily fund our operations independently of any of the other entities in the Santander Group.

Our asset and liability management is carried out within defined limits as determined by the Asset and Liability Management Committee, or "ALCO", which operates under guidelines and procedures established by the Santander Group, including limits for positioning in different areas of the Brazilian financial market. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Asset and Liability Management Committee" for further information regarding the ALCO.

The following table sets forth our capitalization as of December 31, 2009 and December 31, 2008.

	At December 31, 2009(1)		At December 31, 2008	
	Amount	Ratio	Amount	Ratio
	(in millions of R$, except percentages)			
Tier 1 capital	42,358	20.7%	23,033	10.7%
Tier 2 capital	9,973	4.9%	8,504	4.0%
Tier 1 and 2 capital	52,331	25.6%	31,537	14.7%
Required Regulatory Capital(2)	22,483	N.A.	23,528	N.A.

(1) Based on Central Bank criteria, which disregards the goodwill effect.
(2) Includes credit, market and operational risk capital required.

Funding

We fund most of our assets with local deposits, in line with other Brazilian banks. In accordance with Brazilian regulations, we generally may not issue bonds in the local market. Our external foreign-currency bond issuances comprise a small portion of our total liabilities. We also sell government securities under agreements to repurchase for purposes of funding the overnight government bond market. In connection with the acquisition of Banco Real, Santander Spain provided funding to Santander Brasil of R$2.5 billion by means of the acquisition of certain GB&M loans that had been originated by ABN AMRO.

Deposits

The following tables present the composition of Santander Brasil's consolidated funding at the dates indicated.

Deposits	At December 31,	At December 31,	
	2009	2008	2007
	(in millions of R$)		
Deposits from the Brazilian Central Bank and credit institutions			
Time deposits	20,838	26,721	11,949
Other demand accounts	195	66	61
Repurchase agreements	164	31	6,834
Total	21,197	26,818	18,844
Customer deposits			
Current accounts	15,140	15,298	6,588
Savings accounts	25,216	20,643	6,288
Other demand deposits	–	–	26
Time deposits	74,634	88,880	26,028
Repurchase agreements	34,450	30,674	16,281
Total	149,440	155,495	55,211
Total deposits	**170,637**	**182,313**	**74,055**

Short-Term Borrowings	At December 31,		At December 31,			
	2009		2008		2007	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
	(in millions of R$, except percentages)					
Securities sold under agreements to repurchase (principally Brazilian Government securities)						
At December 31	34,614	9.9%	30,706	13.6%	23,115	11.2%
Average during year	32,493	11.5%	19,639	12.0%	21,567	11.0%
Maximum month-end balance	37,214	–	31,058	–	25,748	–
Total short-term borrowings at year-end(1)	**34,614**		**30,706**		**23,115**	

(1) Included in Deposits from the Central Bank and credit institutions and customer deposits.

Deposits from the Central Bank and Credit Institutions

Our balance of deposits from the Central Bank and credit institutions increased from R$18.8 billion on December 31, 2007 to R$26.8 billion on December 31, 2008 and R$21.2 billion on December 31, 2009, representing 25%, 15% and 12% of total deposits, respectively. Excluding the effect of the acquisition of Banco Real, our deposits from the Central Bank and credit institutions were R$20.4 billion at December 31, 2008, representing 23% of total deposits at December 31, 2008. The variation from December 31, 2008 to December 31, 2009 was mainly generated by the depreciation of the real against the U.S. dollar of 25%.

Customer Demand Deposits

Our balance of demand deposits (current accounts and other demand deposits) was R$6.6 billion as of December 31, 2007, R$15.3 billion as of December 31, 2008 and R$15.1 billion as of December 31, 2009, and our percentage of demand deposits to total deposits was 9% on December 31, 2007, 8% as of December 31, 2008 and 9% on December 31, 2009. Excluding the effect of the acquisition of Banco Real, our balance of demand deposits was R$5.3 million on December 31, 2008 and our percentage of demand deposits to total deposits was 6% on December 31, 2008. The 2008 variation, excluding the effect of the acquisition of Banco Real, was mainly a result of the global financial crisis which reduced the liquidity in the local market.

Customer Savings Deposits

After the Banco Real acquisition, our savings deposits increased from R$6.3 billion as of December 31, 2007 to R$20.6 billion as of December 31, 2008 and R$25.2 billion as of December 31, 2009, and our percentage of savings deposits to total deposits was 8% as of December 31, 2007, 11% as of December 31, 2008 and 15% as of December 31, 2009. Excluding the effect of the acquisition of Banco Real, our savings deposits were R$8.3 billion as of December 31, 2008, representing 9% of total deposits as of December 31, 2008. The increases from December 31, 2007 through December 31, 2009 reflected migration from investment funds towards lower risk bank deposits initially driven by a "flight to quality" (or movement to institutions and investment products perceived as being lower-risk), which continued until the end of 2008, thereafter increases were mainly due to the decline in the rates of return on fixed income investments due to the reduction of local interest rates, which caused regular saving accounts to be more attractive to investors.

Customer Time Deposits

Our balance of time deposits increased from R$26.0 billion as of December 31, 2007 to R$88.9 billion as of December 31, 2008 and R$74.6 billion as of December 31, 2009, representing 35%, 49% and 41% of total deposits, respectively. Excluding the effect of the acquisition of Banco Real, our time deposits were R$40.9 billion as of December 31, 2008, representing 46% of total deposits as of December 31, 2008. The 2008 variation excluding the effect of the acquisition of Banco Real was mainly due to migration from investment funds.

Customer Deposits – Repurchase Agreements

We maintain a portfolio of Brazilian public and private sector liquid debt instruments used to obtain overnight funds from other financial institutions or investment funds by selling such securities and simultaneously agreeing to repurchase them. Due to the short-term (overnight) nature of this funding source, such transactions are volatile, and are composed, generally, of Brazilian public securities. Securities sold under repurchase agreements increased from R$16.3 billion as of December 31, 2007 to R$30.7 billion as of December 31, 2008 and R$34.4 billion as of December 31, 2009, representing 22%, 17% and 20% of total funding, respectively. The variation from December 31, 2008 to December 31, 2009 was mainly movement of customer funds out of mutual funds and other similar vehicles into lower-risk bank deposits as well as a "flight to quality" as Brazilian customers moved their savings to larger financial institutions. Excluding the effect of the acquisition of Banco Real, securities sold under repurchase agreements were R$14.4 billion as of December 31, 2008, representing 16% of total funding as of December 31, 2008.

Other Funding

Marketable Debt Securities

As of December 31, 2009, we had R$11.4 billion in funds from issuance of marketable debt securities, representing 5.6% of our total funding. This amount includes (1) R$1.2 billion in Agribusiness Credit Notes (*Letra de Crédito do Agronegócio*), which are credit notes that are freely negotiable and represent an unconditional promise of payment in cash, issued exclusively by financial institutions, related to credit rights originated from transactions conducted between rural producers and their cooperatives and agents of the agribusiness production chain; (2) R$5.9 billion of Real Estate Credit Notes – LCI related to credit rights originated from real estate transactions; (3) R$2.8 billion in bonds and other securities; and (4) R$1.4 billion in securitization notes. We have entered into securitization transactions involving the sale of our right, title and interest in (but none of our obligations under) certain of our diversified payment rights, which consist of certain U.S. dollar- and euro-denominated payment orders received or to be received by us. Sales of such diversified payment rights are made to a special purpose company, which finances its purchases of such rights through the issue of notes.

Subordinated Debt

As of December 31, 2009, our subordinated debt included (1) U.S.$500 million in perpetual securities at a fixed rate of 8.7% per year with quarterly interest payments issued in September 2005, (2) R$10.4 billion of certificates of deposit issued by us in the local market in various issuances at average interest rates indexed to CDI or IPCA.

Contractual Obligations

Our contractual obligations at December 31, 2009 are summarized as follows:

	At December 31, 2009				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in millions of R$)				
Contractual Obligations					
Deposits from central banks	240	240	–	–	–
Deposits from credit institutions	20,956	12,624	7,486	742	105
Customer deposits	149,440	104,632	40,770	4,032	6
Marketable debt securities	11,439	8,125	937	1,533	844
Subordinated liabilities	11,305	2	–	4,331	6,971
Total	**193,380**	**125,623**	**49,193**	**10,638**	**7,926**

The table above does not reflect amounts that we may have to pay on derivative contracts. The amounts ultimately payable will depend upon movements in financial markets. The aggregate fair value of all our derivative contracts as of December 31, 2009 was R$702 million.

In addition, we lease many properties under standard real estate lease contracts, which leases can be canceled at our option and include renewal options and escalation clauses. Total future minimum payments of non-cancelable operating leases as of December 31, 2009 is R$1,078 million, of which R$314 million matures in up to one year, R$687 million from one year to up to five years and R$76 million after five years. In 2008, we paid R$249 million under such leases and for the year ended December 31, 2009, we paid R$304 million under such leases.

Off-Balance Sheet Arrangements

We have entered into the normal course of business, several types of off-balance sheet arrangements, including lines and letters of credit and financial guarantees.

Lending-Related Financial Instruments and Guarantees

We utilize lines and letters of credit and financial guarantee instruments to meet the financing needs of our customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or we fulfill our obligation under the guarantee and the counterparty subsequently fails to perform according to the terms of the contract. Most of these commitments and guarantees expire without the counterparty drawing on the credit line or a default occurring. As a result, the total contractual amount of these instruments does not represent our future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer financing, are cancelable, upon notice, at our option.

The following table sets forth the maximum potential amount of future payments under credit and financial guarantees.

	At December 31,	At December 31,	
	2009	2008	2007
		(millions of R$)	
Contingent liabilities			
Financial guarantees and other securities	20,506	24,765	14,835
Documentary credits	461	640	464
Total contingent liabilities	**20,967**	**25,405**	**15,299**
Commitments			
Loan commitments drawable by third parties	77,789	68,778	18,090
Securities placement commitments	3,438	9,615	3,646
Total commitments	**81,227**	**78,393**	**21,736**
Total	**102,194**	**103,798**	**37,035**

Risk Management

Overview

Our operations are subject to a variety of risks. To manage these risks actively, we have incorporated the Santander Group's worldwide risk management functions into various levels of our organization. Certain members of our risk management area are seconded from the Santander Group to ensure a consistent risk management approach worldwide by implementing Santander Group's risk management policies for all of our areas, including financial, credit and market risk. In addition, committees headed by senior management oversee our financial, credit and market risk reports from the divisions assigned to risk management. Risk limits and exposures in local jurisdictions are further subject to approval from the Santander Group.

Credit Risk

Our credit risk management process is designed to follow the standards of the Santander Group while taking into account our product offerings and the specific regulatory requirements of our operations in Brazil. Our credit approval processes, particularly approval of new loans and risk monitoring, is structured in accordance with our customer and product classification. Credit approval and monitoring are conducted separately and on different information technology platforms for each of the networks operated under the Santander and Banco Real brands, until the technology integration process is concluded.

Our credit approval processes are structured primarily around our retail lending and wholesale lending activities. For additional details on our credit risk management policies with respect to specific categories of loans by type of customer see "Selected Statistical Information—Loan Portfolio—Types of Loans by Type of Customer."

Retail Lending

In our retail banking, credit requests by individuals are analyzed by a credit approval system applying various types of processes depending on the credit history of the customer and the type of credit requested. For standard credit requests in amounts less than R$400,000, approval is generally made at our individual branches based on an automatic, standardized process. When the customer's request is submitted for credit approval, we collect relevant credit information for the customer, including the individual's profession, level of income, internal and external financial restrictions, credit history, current indebtedness, and relationship with us. Based on this data and the type of credit requested, our credit rating system automatically assigns a credit rating based on a scoring model and our risk management polices. We use our scoring models in two different phases, an "initial" phase and an "ongoing" phase. A pure credit scoring model is applied in the initial phase when the customer starts the relationship with us. A behavioral scoring model is used when the customer has already had a relationship with us for the time period established by our risk management policies. This policy allows us to evaluate our existing customers with a more complete analysis than if we applied a pure scoring model for all customers.

Our branches operating under the Santander Brasil and the Banco Real brands apply certain distinct operational criteria in approving credit requests, but follow the same risk boundaries. Pre-approval limits are granted for lines of credit for a particular individual or wholesale banking customer based on creditworthiness and size as determined according to our scoring criteria. In the case of credit approval by our branches operating under the Santander Brasil brand, approval is based entirely on our scoring criteria and branch employees are not authorized to approve a credit application if the particular customer is not pre-approved through our scoring criteria. With respect to branches operating under the Banco Real brand, certain branch personnel are authorized to approve a credit application even where a particular customer has not been pre-approved based on the relevant scoring criteria, after taking into account certain mitigating factors specific to the particular customer. Any such approvals are made within preset criteria to conform to our credit risk standards. This allows us to preserve relationships with key customers. As we continue to integrate the operations of Santander Brasil and Banco Real, we expect to establish uniform operational criteria for credit approval across all branches. An individualized analysis is made for products that are not subject to our automatic scoring process. In this case, evaluations are performed by credit committees that follow a standardized and centralized process within pre-defined criteria.

We have established procedures and authorized certain organizational bodies to approve credit requests in amounts greater than those delegated to individual branches (both for individuals and business customers). Such approvals are made following application of the relevant scoring model and individualized analysis by the relevant authorized body. The following table sets out the individuals or bodies authorized to make extensions of credit to retail borrowers for the amounts specified.

Authorization Required	Amount
Branch(1)	Up to R$600,000
Business Committees	From R$600,000 to R$1.5 million
Decision centers	From R$1.5 million to R$6.0 million
Retail Risk Committee(2)	From R$6.0 million to R$15.0 million
Superior Risk Committee(3)	From R$15.0 million to U.S.$35.0 million
Brazil Executive Risk Committee(4)	From U.S.$35.0 million to €100.0 million

(1) Approval process at branches operating under the Santander brand is automatic based on standard scoring models.
(2) Members of Retail Risk Committee include our Chief Executive Officer, Executive Vice President for Credit and Market Risk and the Senior Vice President for Retail.
(3) Members of Central Risk Committee include the Executive Vice President for Credit and Market Risk and representatives of each of the risk departments.
(4) Members of Customers and Market Executive Committee include our Chief Executive Officer, Chief Financial Officer, Senior Vice President and Executive Vice President for Global Banking & Markets and Executive Vice President for Credit and Market Risk.

For financing products designed to be offered to SMEs (businesses with annual revenues of less than R$1 million and R$30 million, respectively), the credit approval process is performed through an automated scoring system. For other financing products, the risk management analysis is performed by credit analysts who have detailed knowledge about the customer and its respective business group and economic and industrial sectors. This preliminary analysis also generates a credit rating based on our internal models. Additional information, such as the characteristics of the financing product being offered, including related terms and conditions and collateral granted in connection therewith, is also taken into account as part of the approval process.

Wholesale Lending

For lending to our wholesale banking customers, the approval process is determined for each customer class and product separately. All credit requests by our Global Banking & Markets customers, a group of approximately 700 entities, are approved by the Customers and Market Executive Committee. Credit requests by our corporate customers (corporations with annual revenues in excess of R$250 million) and business enterprise customers (corporations with annual revenues between R$30 million and R$250 million) must be approved by the relevant bodies set forth in the following table for the amounts indicated.

Authorization Required	Amount Corporate Customers	Amount Business Enterprise Customers
Regional approval committee	N.A.	Up to R$3.0 million
Regional Wholesale Risk Committee	From R$3.0 million to R$15.0 million	From R$3.0 million to R$15.0 million
Wholesale Risk Committee(1)	From R$15.0 million to R$40.0 million	From R$15.0 million to R$40.0 million
Central Risk Committee	From R$40.0 million to U.S.$35.0 million	From R$40.0 million to U.S.$35.0 million
Brazil Executive Risk Committee	From R$35.0 million to €100.0 million	From R$35.0 million to €100.0 million

(1) Members of Wholesale Risk Committee include persons responsible for risk at Global Banking & Markets.

Credit Monitoring

Credit lines to retail banking customers are reviewed on a weekly basis. This process allows improvements in the credit exposure with customers that have presented good credit quality. Specific early warnings are automatically generated in the case of the deterioration of a customer's credit quality. In this event, a credit risk mitigation process designed to prevent default begins with identification of the customer's solvency problem (expenditures and other financial commitments) and the customer is approached by the relationship manager.

Early warnings are automatically generated for SMEs, and their performance is monitored monthly. In addition, the financial situation of each business is discussed by specific committees in the presence of the commercial area with the aim of continuously improving the quality of our credit portfolio.

Credit lines to wholesale banking customers and their credit quality are reviewed on an annual basis. If this monitoring gives rise to any specific concern about the credit quality of a specific customer, a system of customer monitoring known as FEVE (Firms for Special Vigilance) is used, with possible actions to be taken under the following categories: "monitor" "reduce exposure", "seek collateral" or "cancel". In these situations, clients will be reviewed on a quarterly or a biannual basis.

Credit Classifications

We are required to classify our credit transactions, in accordance with criteria set forth in 2000 by the Central Bank, as either AA, A, B, C, D, E, F, G or H. Each of these categories corresponds to a number of days a transaction is past due and one of our own internal risk rating categories, which have been approved by the Central Bank. We classify all transactions with individuals based solely on the number of days past due.

We classify all other transactions at the higher of our own internal risk classification or the risk classification resulting from the number of days the transaction is past due. Our credit classifications take into account:

- the conditions of the debtor and any guarantor, such as the debtor's and/or guarantor's economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, administration, corporate governance and quality of internal controls, payment history, the sector in which such debtor or guarantor is active, contingencies and credit limits; and

- characteristics of the transaction, such as its nature and purpose, type, sufficiency and level of liquidity of collateral and the total amount of the credit.

Our rating and risk management systems are reviewed by both the Central Bank and the Santander Group's internal auditors. Our management has not had any disputes with the Central Bank or the Santander Group regarding our risk management operations.

Credit Provisioning

The Central Bank specifies a minimum provision for each credit transaction rating category, which is measured as a percentage of the total amount of credit operations, as set forth in the table below.

Central Bank Classification (Risk level)	Minimum Provision in %	Days Past Due Classification (days past due)
AA	–	None
A	0.5	<15
B	1.0	15-30
C	3.0	30-60
D	10.0	60-90
E	30.0	90-120
F	50.0	120-150
G	70.0	150-180
H	100.0	180-210

Our allowances for credit losses under IFRS are greater than the minimum amounts required by the Central Bank. The following table shows, at the dates indicated the minimum allowances for credit losses required by the Central Bank and the allowances we established under IFRS.

	Required Allowances		IFRS Allowances Established	
	2009	2008	2009	2008
	(in millions of R$)			
Total	**8,827**	**6,938**	**10,070**	**8,181**

Collections

Our collections department uses tools such as behavior and collection scoring to study the collection performance of certain groups in an attempt to lower costs and increase recoveries. Customers likely to make payment are classified as low risk, requiring less aggressive strategies to ensure payment, and more attention is paid to maintaining a healthy customer relationship. Customers unlikely to make payment are classified as high risk and contacted consistently regarding payment. All customers with past due amounts or whose loans have been rescheduled or otherwise restructured face strict internal restrictions.

Collection strategies are modified according to the duration of the delay in payment, or days past due. In the early days of delinquency (less than 90 days past due), the collections department implements a more exhaustive model of collection, creating distinct strategies with closer monitoring. Call centers, letters and credit rating agencies, such as Serasa, which is a centralized data system used by several Brazilian financial institutions and others for the credit approval process, are utilized during this phase. During this phase of collection, our emphasis is on recovering our customers. However, if a customer is 90 days past due, our focus turns toward recovering the money owed. At this point, we outsource collection efforts to external collection agencies that earn a commission for any amounts recovered. The Collections department also manages debt and loan restructurings.

Asset and Liability Management Committee

Our asset and liability management strategy is defined by the Asset and Liability Management Committee, or ALCO, which operates under the strict guidelines and procedures established by the Santander Group. Members of the ALCO include our Chief Executive Officer, Chief Financial Officer, Treasurer, Executive Vice President of Risk Management, Senior Vice President of wholesale banking operations, Senior Vice President of Retail Banking, the head of ALM and Chief Economist, among others. The ALCO meets every two weeks to establish our funding strategy, structural balance sheet interest rate position and capital management. It uses several risk metrics to monitor the impact of market conditions, including market value and interest rate margin sensitivities. Other ALCO activities include the establishment of transfer pricing policies, management of risk-weighted assets and economic capital exposure, management of local regulatory capital and decision making on capital instrument issuances, each of which is in line with the Santander Group's guidelines and limits.

Market Risk

Generally

We are exposed to market risk mainly as a result of the following activities:

- Trading in financial instruments, which involves interest rate, foreign exchange rate, equity price and volatility risks.
- Engaging in retail banking activities, which involves interest rate risk because a change in interest rates affects interest income, interest expense and customer behavior.
- Investing in assets (including subsidiaries) whose returns or accounts are denominated in currencies other than the *real*, which involves foreign exchange rate risk.
- Investing in subsidiaries and other companies, which subjects us to equity price risk.
- All trading and non-trading activities, which involve liquidity risk.

Primary Market Risks and How They Arise

The primary market risks to which we are exposed are interest rate risk, foreign exchange rate risk, equity price risk, volatility risk and liquidity risk. We are exposed to interest rate risk whenever there is a mismatch between interest rate sensitive assets and liabilities, subject to any hedging we have engaged in using interest rate swaps or other off-balance sheet derivative instruments. Interest rate risk arises in connection with both our trading and non-trading activities.

We are exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities, and off-balance sheet items denominated in different currencies, either as a result of trading or in the normal course of business. We maintain non-trading open currency positions arising from our investments in overseas subsidiaries and branches (such as our Grand Cayman branch), affiliates and their currency funding. Our principal non-trading currency exposure is the U.S. dollar, which, as mandated by our policies, is hedged to the *real* within established limits.

We are exposed to equity price risk in connection with both our trading and non-trading investments in equity securities.

We are also exposed to liquidity risk. Market depth is the main liquidity driver in our trading portfolio, even though our policy is to trade the most liquid assets. Our liquidity risk also arises in non-trading activity due to the maturity gap between assets and liabilities mostly in the retail banking business.

We use derivatives for both trading and non-trading activities. Trading derivatives are used to eliminate, reduce or modify risk in trading portfolios (interest rate, foreign exchange and equity price risk), and to provide financial services to customers. Our principal counterparties (in addition to customers) for this activity are financial institutions and the BM&FBOVESPA. Our principal derivative instruments include interest rate swaps, interest rate futures, foreign exchange forwards, foreign exchange futures, foreign exchange options, cross currency swaps, equity index futures, equity options and interest rate options.

We also use derivatives in non-trading activity in order to manage the interest rate risk and foreign exchange risk arising from asset and liability management activity. We use interest rate and foreign exchange non-optional derivatives in non-trading activity.

We have no credit derivatives in Brazil, as there is no market for credit derivatives in Brazil.

Procedures for Measuring and Managing Market Risk

Our board of directors, through its risk committee, is responsible for establishing our policies, procedures and limits with respect to market risk, including which businesses to enter into and maintain. The committee also monitors our overall performance in light of the risks assumed. Together with the local and global assets and liabilities committees, each market risk unit measures and monitors our market and liquidity risk and provides figures to the assets and liabilities committees to use in managing such risks.

Market risk is regulated and controlled through certain policies, set forth in our market and liquidity risk management policies manual (as described below), and through structures setting forth specific limits to our exposure to market risk which is based on global limits established for the entire Santander Group. In addition, authorized products are listed and reviewed periodically.

These policies, procedures and limits on market risk are applicable to all units, businesses or portfolios susceptible to market risk.

Market and Liquidity Risk Management Policies Manual

The market and liquidity risk management policies manual, or the "Manual", is a compilation of policies that describe the control framework used by the Santander Group to identify, measure and manage market risk exposures inherent in our activities in the financial markets. The Manual is employed for market risk management purposes at all levels in the Santander Group and within its subsidiaries (including us), providing a general and global action framework and establishing risk rules for all levels.

The Manual's main objective is to set forth the risk level which our board of directors deems acceptable and to describe and report all risk policies and controls that our board of directors has established. All risk managers within the Santander Group must ensure that each business activity is performed in accordance with the policies established in the Manual. The Manual is followed in market risk decision-making in all business units and activities.

Market Risk Management Procedures

All functions developed by risk management are documented and regulated by different procedures, including measurement, control and reporting responsibilities. Internal and external auditors audit the compliance with this internal regulation to ensure that our market risk policies are followed.

Market Risk Limit Structure

The market risk limit structure represents the board of directors' risk appetite and is determined by our global market risk management policies, which encompass all of our business units and serve to:

- Identify and define the main types of risk incurred in a manner consistent with our business strategy.

- Quantify and report to our business segments with respect to appropriate risk levels and risk profile in line with senior management's assessment of risks to help avoid any of our business segments taking undesired risks.

- Provide flexibility to our business segments to timely and efficiently establish risk positions responsive to market changes and our business strategies, and always within acceptable Santander Group risk levels.

- Allow the individuals and teams originating new business to take prudent risks that will help attain budgeted results.

- Establish investment alternatives by limiting equity consumption.

- Define the range of products and underlying assets within which each unit of treasury can operate, taking into consideration our risk modeling and valuation systems and our liquidity tools. This will help to constrain all market risk within the business management and defined risk strategy.

Global market risk management policies define our risk limit structure while the risk committee reviews and approves such policies. Business managers administer their activities within these limits. The risk limit structure covers both our trading and non-trading portfolios and includes limits on fixed income instruments, equity securities, foreign exchange and other derivative instruments.

Limits considered to be global limits refer to the business unit level. To date, system restrictions prevent intra-day limits. Our business units must comply with approved limits. Potential excesses require a range of actions carried out by the global market risk function unit including (1) providing risk-reducing suggestions and controls, which are the result of breaking "alarm" limits and (2) taking executive actions that require risk takers to close out positions to reduce risk levels.

Statistical Tools for Measuring and Managing Market Risk

Trading Activity

The trading portfolio comprises our proprietary positions in financial instruments held for resale and/or bought to take advantage of current and/or expected differences between purchase and sale prices. This portfolio also includes positions in financial instruments deriving from market-making and sales. As a result of trading fixed income securities, equity securities and foreign exchange, we are exposed to interest rate, equity price and foreign exchange rate risks. We are also exposed to volatility when derivatives are used.

We actively manage market risk arising from proprietary trading and market-making activities through the use of cash and derivative financial instruments traded in over-the-counter, or "OTC", and organized markets. We typically hedge interest rate risk derived from market-making by buying or selling very liquid cash securities such as government bonds, or futures contracts listed in organized markets like the BM&FBOVESPA, the London Metals Exchange, the NYSE—Euronext Liffe, the New York Mercantile Exchange, NYSE and Chicago Board of Trade.

We manage foreign exchange rate risk through spot transactions executed in the global foreign exchange inter-bank market, as well as through forward foreign exchange, cross currency swaps, FX futures at the BM&FBOVESPA and foreign exchange options. We hedge equity price risk by buying or selling the underlying individual stocks in the organized equity markets in which they are traded or futures contracts on individual stocks listed in organized markets like the BM&FBOVESPA. We hedge volatility risk arising from market-making in options and option-related products by either buying and selling option contracts listed in organized markets like the BM&FBOVESPA, or entering risk reversal transactions in the inter-bank OTC market. We use value at risk or "VaR", to measure our market risk associated with all of our trading activity.

VaR model. Locally, we use a variety of mathematical and statistical models, including VaR models, historical simulations and stress testing to measure, monitor, report and manage market risk. Such numbers, produced locally, also serve as input for global activities such as evaluations of return on risk adjusted capital, or "RORAC", and to allocate economic capital to various activities in order to evaluate the RORAC of such activities.

As calculated by us, VaR is an estimate of the expected maximum loss in the market value of a given portfolio over a one-day time horizon at a 99.0% confidence interval. It is the maximum one-day loss that we estimate we would suffer on a given portfolio 99.0% of the time, subject to certain assumptions and limitations discussed below. Conversely, it is the figure that we would expect to exceed only 1% of the time, or approximately three days per year. VaR provides a single estimate of market risk that is comparable from one market risk to the other.

Our standard methodology is based on historical simulation (520 days). In order to capture recent market volatility in the model, our VaR figure is the maximum between the 1.0% percentile and the 1.0% weighted percentile of the simulated profit and loss distribution. This loss distribution is calculated by applying an exponential decline factor, which accords less weight to the observations farthest away in time.

We use VaR estimates to alert senior management whenever the statistically estimated losses in our portfolios exceed prudent levels. Limits on VaR are used to control exposure on a portfolio-by-portfolio basis.

Assumptions and limitations. Our VaR methodology should be interpreted in light of the limitations that (1) a one-day time horizon may not fully capture the market risk of positions that cannot be liquidated or hedged within one day and (2) at present, we compute VaR at the close of business and trading positions may change substantially during the course of the trading day.

Scenario analysis and calibration measures. Because of these limitations in VaR methodology, in addition to historical simulation, we use stress testing to analyze the impact of extreme market movements and adopt policies and procedures in an effort to protect our capital and results of operations against such contingencies. In order to calibrate our VaR model, we use back testing, which is a comparative analysis between VaR estimates and the daily clean profit and loss (theoretical result generated assuming the mark-to market daily variation of the portfolio only considering the movement of the market variables). The purpose of these tests is to verify and measure the precision of the models used to calculate VaR.

Non Trading Activities

Interest rate risk. We analyze the sensitivity of net interest margin and market value of equity to changes in interest rates. This sensitivity arises from gaps in maturity dates and interest rates in the different asset and liability accounts. Certain repricing hypotheses are used for products without explicit contractual maturities based on the economic environment (financial and commercial).

On the basis of the positioning of balance sheet interest rates, as well as the market situation and outlook, we take financial measures to adjust the positioning to levels in line with Santander Group policies. These measures range from taking positions in markets to defining the interest rate features of commercial products. The measures used to control interest rate risk are the interest rate gap analysis, the sensitivity of net interest margin and market value of equity to changes in interest rates, VaR and analysis of scenarios.

Interest rate gap of assets and liabilities. Interest rate gap analysis focuses on lags or mismatches between changes in the value of asset, liability and off-balance sheet items. Gap analysis provides a basic representation of the balance sheet structure and allows for the detection of interest rate risk by concentration of maturities. It is also a useful tool for estimating the impact of eventual interest rate movements on net interest margin or equity.

All on- and off-balance sheet items must be broken down by their flows and analyzed in terms of repricing and maturity. In the case of those items that do not have a contractual maturity, an internal model of analysis is used and estimates are made of their duration and sensitivity.

Net interest margin sensitivity. The sensitivity of net interest margin measures the change in the shorthand medium-term in the accruals expected over a 12-month period, in response to a shift in the yield curve. The yield curve is calculated by simulating the net interest margin, both for a scenario of a shift in the yield curve as well as for the current scenario. The sensitivity is the difference between the two margins calculated.

Market value of equity sensitivity. Net worth sensitivity measures the interest risk implicit in net worth (equity) over the entire life of the operation on the basis of the effect that a change in interest rates has on the current values of financial assets and liabilities. This is an additional measure to the sensitivity of the net interest margin.

Value at risk. The VaR for balance sheet activity and investment portfolios is calculated with the same standard as for trading and historical simulation, with a confidence level of 99.0% and a time frame of one day.

Analysis of scenarios of stress test. We apply three scenarios for the performance of interest rates: six standard deviations up and six standard deviations down of risk factors and one abrupt scenario in which risk factors are increased by 50.0% up and down from current levels. These scenarios are applied to the balance sheet, obtaining the impact on net worth as well as the projections of net interest revenue for the year.

Liquidity risk. Liquidity risk is associated with our capacity to finance our commitments at reasonable market prices, as well as to carry out our business plans with stable sources of funding. We permanently monitor maximum gap profiles. The measures used to control liquidity risk are the liquidity gap, liquidity ratio, stress scenarios and contingency plans.

Liquidity gap. The liquidity gap provides information on contractual and expected cash inflows and outflows for a certain period of time, for each of the currencies in which we operate. The gap measures the net need or excess of funds at a particular date and reflects the level of liquidity maintained under normal market conditions.

Liquidity ratios. The liquidity coefficient compares liquid assets available for sale (after applying the relevant discounts and adjustments) with total liabilities to be settled, including contingencies. This coefficient shows, for currencies that cannot be consolidated, the level of immediate response of the entity to firm commitments.

Net accumulated illiquidity is defined as the 30-day accumulated gap obtained from the modified liquidity gap. The modified contractual liquidity gap is calculated on the basis of the contractual liquidity gap and by placing liquid assets or repos at the point of settlement and not at the point of maturity.

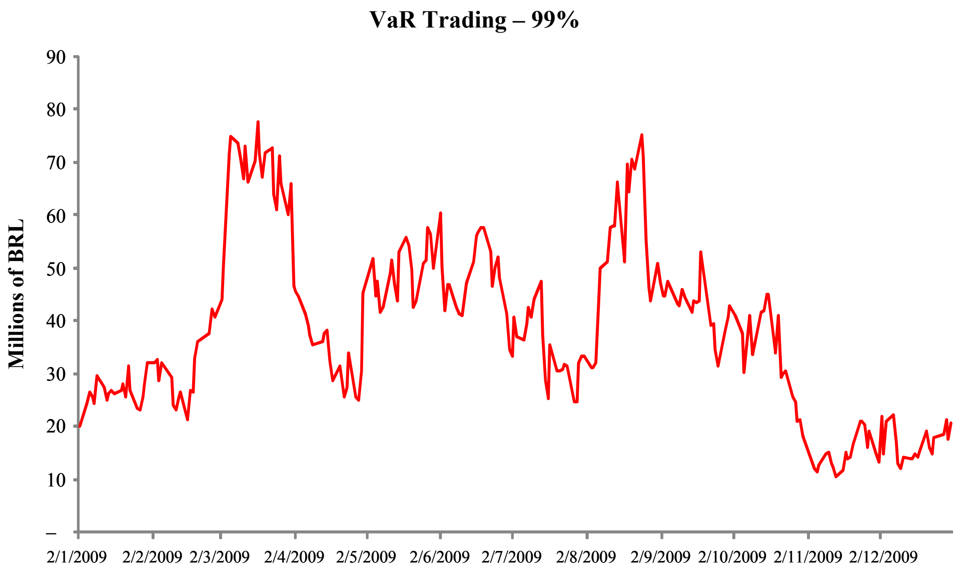
Analysis of scenarios/contingency plan. Our liquidity management focuses on preventing a crisis. Liquidity crises, and their immediate causes, cannot always be predicted. Consequently, our contingency plan concentrates on creating models of potential crises by analyzing different scenarios and identifying crisis types, internal and external communications and individual responsibilities.

The contingency plan covers the activity of local units and of the Santander Group's headquarters in Madrid. Each local unit must prepare a plan of contingency financing, indicating the amount it would potentially need from the Santander Group headquarters in the case of a crisis. Each unit must inform Santander Group headquarters of its plan at least every six months so that it can be reviewed and updated. These plans, however, must be updated more frequently if prudent due to market circumstances.

Quantitative Analysis

Trading Activity

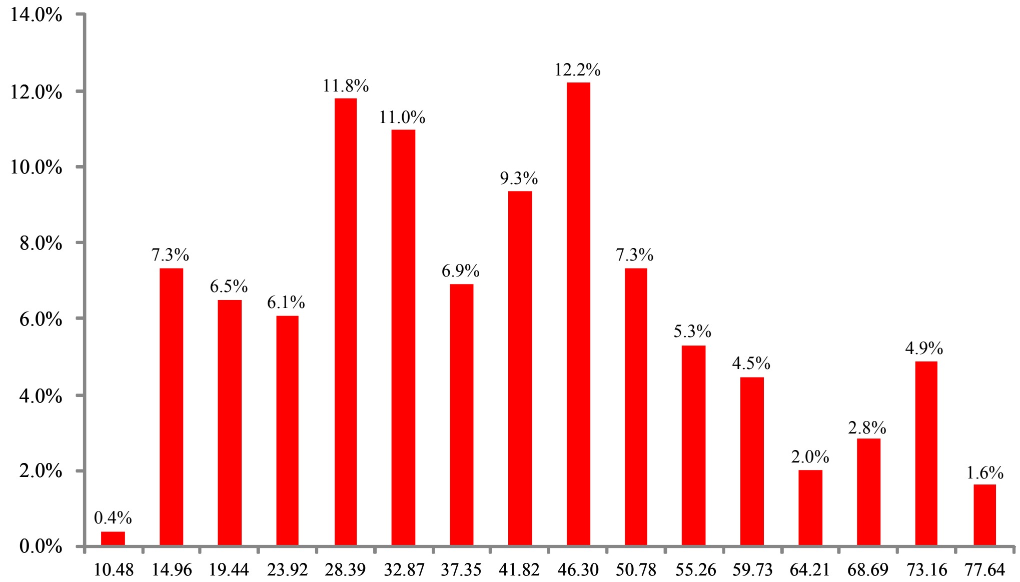
Quantitative analysis of daily VaR in 2009. Our risk performance with regard to trading activity in financial markets during 2009, measured by daily VaR, is shown in the following graph.



VaR during 2009 fluctuated in a range between R$10 million and R$78 million. The VaR variance shown in the chart above was mainly due to changes in the positions taken by trading book during 2009.

As observed in the histogram below, the VaR maintained a range between R$28 million and R$45 million on 51.0% of days in 2009.

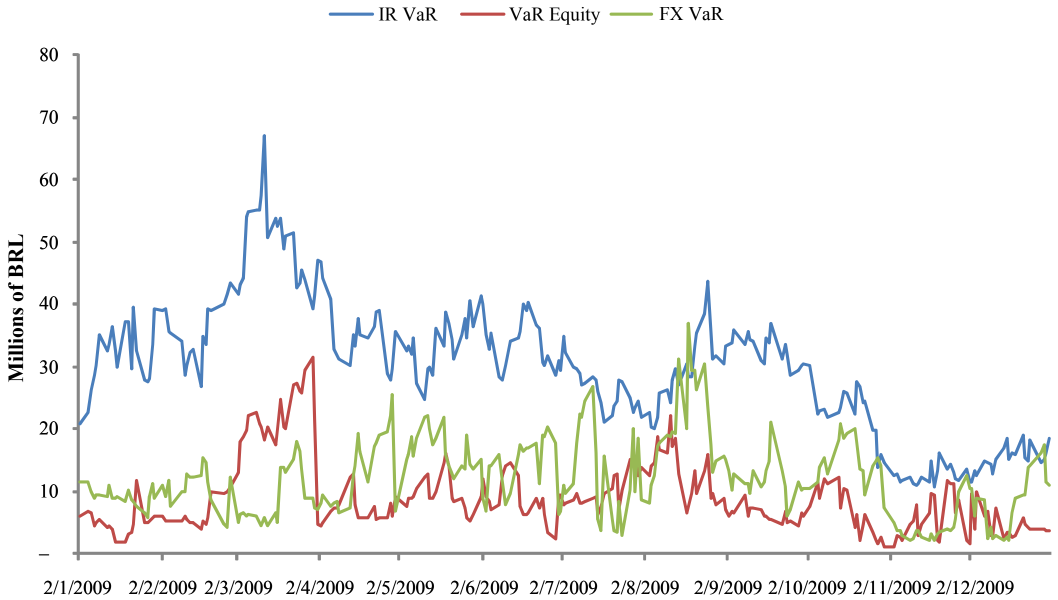
Histogram of Risk – VaR (in Million of BRL)



Risk by factor. The minimum, maximum, average and year-end 2009 risk values in VaR terms were as follows:

	Minimum	Average	Maximum	Last
		(in millions of R$)		
Total trading				
Total VaR	10.5	38.0	77.6	20.9
Diversification effect	(3.6)	(12.9)	(57.7)	(12.7)
Fixed-income VaR	10.9	29.9	67.0	18.7
Equity VaR	1.2	8.9	31.4	3.8
FX VaR	2.1	12.1	37.0	11.1

The average VaR for 2009 was R$38.0 million less than in 2008, due to a decrease in market volatility during 2009. The average risk of the three main factors, interest rates, equity price and exchange rates, was R$29.9 million, R$8.9 million and R$12.1 million, respectively, with a negative average diversification effect of R$12.9 million. The chart below shows the evolution of the risk groups' VaR interest rates (IR), VaR exchange rates (FX) and VaR equity prices.



Risk Statistics in 2009

Risk management of structured derivatives. Our structured derivatives activity (non-organized markets) is mainly focused on structuring investment and hedging products for customers. These transactions include options on FX equities, currencies, fixed-income instruments and mostly market-making books.

Scenario analysis. Different stress test scenarios were analyzed during 2009. A scenario of maximum volatility, which applies six standard deviations to different market factors as of December 31, 2009, generated results that are presented below.

Maximum Volatility Scenario

The table below shows, at December 31, 2009, the maximum daily losses for each product (fixed-income, equities and currencies), in a scenario in which volatility equivalent to six standard deviations in a normal distribution is applied (interest rate rises, falls in stock markets, dollar slides and rise in volatility).

Maximum Volatility Stress Test

	Fixed Income	Equities	Exchange Rate	Volatility	Total
			(in millions of R$)		
Total trading	9.9	(3.6)	(7.0)	(0.4)	(1.2)

The stress test shows that the economic loss suffered by the group in the marked-to-market result would be, if this scenario materialized in the market, R$1.2 million.

Non-Trading Activity

Asset and liability management. We actively manage the market risks inherent in the banking book, mostly retail banking. Management addresses the structural risks of interest rates, liquidity and exchange rates.

The purpose of financial management is to make net interest revenue from our commercial activities more stable and recurrent, maintaining adequate levels of liquidity and solvency.

The financial management area analyzes structural interest rate risk derived from mismatches in maturity and revision dates for assets and liabilities in each of the currencies in which we operate. For each currency, the risk measured is the interest gap, the sensitivity of net interest revenue and the sensitivity of the economic value.

The global financial management area manages structural risk on a centralized basis. This allows the use of homogenous methodologies, adapted to each local market where we operate. In the euro-dollar area, the financial management area directly manages the risks of our parent and coordinates management of the rest of the units that operate in convertible currencies. There is a local team in Santander Brasil that manages balance sheet risks under the same frameworks, in coordination with the global financial management area. The asset and liability committees of each country and, where necessary, the markets committee of our parent are responsible for risk management decisions.

Quantitative Analysis of Interest Rate Risk in 2009

Convertible Currencies

At the end of 2009, the sensitivity of net interest margin at one year, to a parallel rise of 100 basis points in the local currency yield curve was R$200 million. The interest margin in the foreign currency yield curve was R$29 million.

In addition, at the end of 2009, the sensitivity of net worth to parallel rises of 100 basis points in the yield curves was R$1,093 million in the local currency yield curve and R$34 million in the foreign currency yield curve.

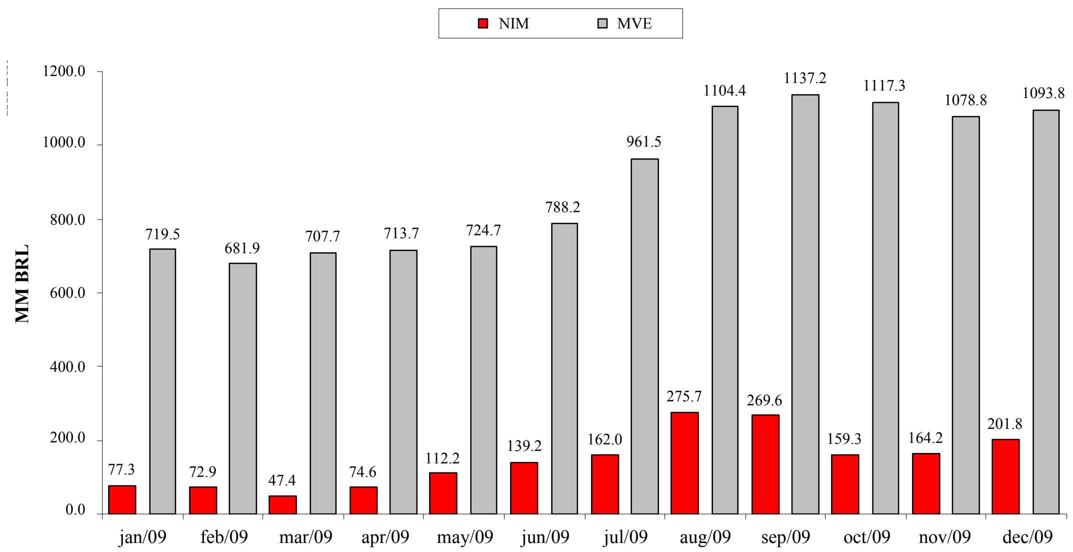
Structural Gap

The following table shows the gaps between the repricing dates of our assets and liabilities of different maturities as of December 31, 2009.

	Total	**0-1 months**	**1-3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**5 years**	**Not sensitive**
				(in millions of R$)					
Money market	129,885	63,207	3,027	9,470	9,804	13,049	14,381	5,219	11,727
Loans	121,069	33,839	14,978	16,558	19,051	26,797	4,756	4,249	840
Permanent	30,932	–	–	–	–	–	–	–	30,932
Other	84,062	34,628	–	–	–	–	–	–	49,434
Total assets	**365,947**	**131,674**	**18,005**	**26,027**	**28,856**	**39,847**	**19,137**	**9,468**	**92,933**
Money market	(95,718)	(73,443)	(3,095)	(4,362)	(2,058)	(3,998)	(2,502)	(3,719)	(2,540)
Deposits	(113,132)	(67,972)	(2,878)	(392)	(25,548)	(15,756)	(386)	(200)	–
Equity and other	(157,097)	(38,465)	(1,287)	(1,320)	(1,081)	(2,059)	(97)	–	(112,788)
Total liabilities	**(365,947)**	**(179,880)**	**(7,260)**	**(6,074)**	**(28,687)**	**(21,813)**	**(2,986)**	**(3,920)**	**(115,328)**
Balance gap	–	(48,206)	10,745	19,953	169	18,034	16,152	5,548	(22,395)
Off- balance gap	**–**	**6,145**	**(448)**	**(5,417)**	**(3,696)**	**705**	**761**	**1,951**	**–**
Total structural gap	–	(42,061)	10,297	14,536	(3,528)	18,739	16,913	7,499	(22,395)
Accumulated gap	**–**	**(42,061)**	**(31,764)**	**(17,228)**	**(20,755)**	**(2,016)**	**14,896**	**22,395**	**–**

The interest rate risk of Santander Brasil balance sheet management portfolios, measured by the sensitivity of market value of the net interest margin to a parallel movement of 100 basis points, remained stable until June 2008 when the bank began to implement a strategy to lock the financial margin after an analysis of future market scenarios. After October 2009, the sensitivities remained again stable, but on a higher level.

The following chart shows our net interest margin, or "NIM", and equity, or "MVE", sensitivity during each month in 2009.



Interest Rate Risk Profile at December 31, 2009

The gap tables below show the distribution of risk by maturity in Brazil as of December 31, 2009 (in millions of R$).

	Total	0-1 months	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5 years	Not sensitive
Gaps in local currency									
Total assets	315,137	100,112	16,065	21,511	25,789	37,105	17,658	6,042	90,854
Total liabilities	(314,94)	(144,505)	(3,061)	(4,697)	(26,525)	(19,039)	(1,664)	(956)	(114,500)
Off balance gap	1,779	18,981	(1,470)	(5,795)	(5,114)	(2,743)	(1,287)	(795)	–
Gap	1,969	(25,412)	11,533	11,020	(5,849)	15,324	14,707	4,292	(23,646)

	Total	0-1 months	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	5 years	Not sensitive
Gaps in foreign currency									
Total assets	50,811	31,563	1,940	4,516	3,066	2,742	1,479	3,425	2,079
Total liabilities	(51,001)	(35,375)	(4,198)	(1,377)	(2,162)	(2,774)	(1,321)	(2,964)	(828)
Off balance gap	(1,779)	(12,836)	1,022	378	1,417	3,448	2,048	2,745	–
Gap	(1,969)	(16,649)	(1,236)	3,516	2,322	3,415	2,205	3,207	1,251

Market Risk: VaR Consolidated Analysis

Our total daily VaR as of December 31, 2008 and December 31, 2009, broken down by trading and structural (non-trading) portfolios, is set forth below. The VaR data for trading and non-trading portfolios is the sum of Santander Brasil data and Banco Real and does not reflect the diversification effect.

	At December 31,				
	2009				2008
	Low	Average	High	Period End	
	(in millions of R$)				
Total	**268.9**	**357.7**	**474.2**	**392.3**	**889.2**
Trading	10.5	38.0	77.6	20.9	40.6
Non-trading	258.4	319.7	398.6	371.4	842.3
Diversification effect	–	–	–	–	6.3

Note: VaR figures for trading and non-trading portfolios was summed, thus disregarding the diversification effect.

Our daily VaR estimates of interest rate risk, foreign exchange rate risk and equity price risk were as set forth below.

Interest Rate Risk

	At December 31,				
	2009				2008
	Low	Average	High	Period End	
	(in millions of R$)				
Interest rate risk					
Trading	10.9	29.9	67.0	18.7	28.0
Non-trading	258.4	319.7	398.6	371.4	842.3
Diversification effect	–	–	–	–	6.7
Total	**269.3**	**349.6**	**463.6**	**390.1**	**877.0**

Note: VaR figures for trading and non-trading portfolios was summed and does not reflect the diversification effect.

Foreign Exchange Rate Risk

	At December 31,				
	2009				2008
	Low	Average	High	Period End	
	(in millions of R$)				
Exchange rate risk					
Trading	2.1	12.1	37.0	11.1	13.1
Non-trading	N.A.	N.A.	N.A.	N.A.	N.A.
Diversification effect	–	–	–	–	–
Total	**2.1**	**12.1**	**37.0**	**11.1**	**13.1**

Note: VaR figures for trading and non-trading portfolios was summed and does not reflect the diversification effect.

Equity Price Risk

	At December 31,				
	2009				2008
	Low	Average	High	Period End	
	(in millions of R$)				
Equity price risk					
Trading	1.2	8.9	31.4	3.8	5.0
Non-trading	N.A.	N.A.	N.A.	N.A.	N.A.
Diversification effect	1.2	8.9	31.4	3.8	(5.0)

Note: VaR figures for trading and non-trading portfolios was summed and does not effect the diversification effect.

Our daily VaR estimates by activity were as set forth below.

	At December 31,				
	2009				2008
	Low	Average	High	Period End	
	(in millions of R$)				
Trading					
Interest rate risk	10.9	29.9	67.0	18.7	28.0
Exchange rate risk	2.1	12.1	37.0	11.1	13.1
Equity	1.2	8.9	31.4	3.8	5.0
Total	**10.5**	**38.0**	**77.6**	**20.9**	**40.6**
Non-trading interest rate					
Interest rate	258.4	319.9	396.6	371.4	842.3
Non-trading foreign exchange					
Exchange rate	N.A.	N.A.	N.A.	N.A.	N.A.
Non-trading equity					
Equity	N.A.	N.A.	N.A.	N.A.	N.A.
Total	**268.9**	**357.1**	**474.20**	**392.3**	**889.2**
Interest rate	269.3	349.6	463.6	390.1	877.0
Exchange rate	2.1	12.1	37.0	11.1	13.1
Equity	1.2	8.9	31.4	3.8	5.0

Note: VaR figures for trading and non-trading portfolios was summed and does not effect the diversification effect.

Management of Operational and Technological Risks

The management and control model for operational and technological risk is not only a competitive driver but also a strategic factor for us. The model guides our managers in their daily activities. In addition, it ensures alignment and compliance with Santander Group's corporate guidelines, the New Basel Capital Accord — BIS II, relevant Central Bank resolutions, local regulatory bodies and the requirements of the U.S. Sarbanes-Oxley Act of 2002.

To achieve these objectives, we have adopted the following organizational structure, which is part of our corporate governance framework:

- Executive Operational Risks Committee — an independent senior committee with decision-making autonomy. This committee is responsible for defining the strategies and guidelines throughout the Santander Brasil Group for the management and control of operational, technological and business-continuity risks;
- Operational Risks Unit — a committee comprised of four departments: Information Security, Special Events (Frauds Investigation), Prevention of Fraud and Intelligence and Operational and Technological Risks. The responsibilities of this committee include defining methodologies, standards, policies, tools, training and procedures applicable and required for the effective and efficient management of our operational risks; and
- Operational and Technological Risks department — responsible for ensuring sound operational and technological risk management practices throughout the organization in addition to guaranteeing business continuity plans for contingency situations. This department also supports managers in meeting their strategic objectives, by strengthening the decision-making process and optimizing execution of daily activities, contributes to prevention and reduction of operational risk losses and serves as the reporting unit for regulatory compliance purposes.

Environmental and Social Risk

We are currently implementing the environmental and social risk management system at Santander Brasil that had been in place at Banco Real. Under this system, borrowers are screened for environmental and social concerns, such as contaminated land, deforestation, labor violations and other major environmental and social issues for which there are potential penalties. In 2008, Banco Real screened approximately 5,000 corporate customers for these types of risks. A specialized team of biologists and geologists monitors the customers' environmental practices, and a team of financial analysts studies the likelihood of damages that unfavorable environmental conditions may cause to our customers' financial condition and collateral, among other effects. Our monitoring activity focuses on preserving our capital and our reputation in the market. We intend to expand these screening practices to include Santander Brasil customers in the Global Wholesale Banking segment, including training our credit and commercial areas to apply Banco Real's environmental and social risk standards in corporate credit approval process.

INDUSTRY

Brazilian Banking Industry

The Brazilian financial system has experienced an important structural shift, from the high-inflation environment in the 1980s and early 1990s towards greater monetary and macroeconomic stability since 1994, with the introduction of the Plano Real, a set of measures taken by the government to stabilize the economy. Prior to 1994, the banking industry benefited from high inflation rates (which, according to the Central Bank, reached 34.7% of the sector's total revenue at its peak) and was characterized by the strong presence of state-owned banks and regulatory limitations on the participation of foreign financial institutions, resulting in lower competitiveness and generally inefficient cost structures. The monetary stability achieved in 1994 led to a continuous increase in the demand for credit in Brazil. This increase, combined with the loss of inflationary gains, pressured the banking industry to improve operational efficiency resulting in a period of rationalization and consolidation. The Brazilian government actively monitored this process through the creation of programs designed to protect savings, including measures to ensure the system's solvency, reduce the participation of state-owned institutions, and strengthen competition among private banks. The federal government also reduced restrictions on the entry of foreign banks into the Brazilian market and, as a result, their market share increased significantly.

Main Market Participants

According to data published by the Central Bank as of May 30, 2009, there were 139 multiple-service banks, 18 commercial banks, 16 investment banks and numerous brokerage firms, financing firms and other financial institutions in Brazil.

Public Sector

Despite the process of privatization and consolidation in the banking industry, the Brazilian federal and state governments still control major commercial banks and other financial institutions. Government-owned banks play an important role in the Brazilian financial system, representing 40.2% and 28.8% of the banking system's total deposits and total assets at March 31, 2009, respectively. Government-owned banks also have a stronger presence in markets such as mortgage loans and agricultural credit than privately-owned banks and act as regional development agencies.

The three main financial institutions controlled by the federal government are:

- Banco do Brasil S.A., a multi-service bank offering a wide range of banking products to both the public and private sectors, and the Brazilian government's main financial agent;

- Caixa Econômica Federal, or "CEF", the federal savings bank, a multi-service bank involved mainly in taking deposits, providing home loans and financing urban infrastructure projects; and

- BNDES, which offers medium- and long-term financing to the Brazilian private sector, particularly the industrial sector. BNDES offers financing directly and indirectly through on-lending to other financial institutions in the public and private sectors.

Private Sector

The main private-sector financial institutions in the Brazilian financial system are:

- full service banks, which are licensed to provide a full range of commercial banking, investment banking, including distributing and trading securities, consumer finance and other services;

- commercial banks, which are primarily engaged in wholesale and retail banking, some of them with relevant regional distribution networks or significant participation in specific niche markets. They are particularly active in accepting demand and time deposits as well as providing working capital loans; and

- investment banks, which are primarily engaged in underwriting securities and structuring transactions.

In recent years, the Brazilian financial industry has experienced a series of acquisitions and mergers, which resulted in an increasing consolidation of the financial industry. In August 2008, we completed the acquisition of Banco Real, significantly increasing our presence in Brazil. In November 2008, Itaú and Unibanco announced their merger. Also in November 2008, Banco do Brasil announced the acquisition of control of Banco Nossa Caixa S.A. and in January 2009, it announced the acquisition of a 50.0% stake in Banco Votorantim S.A. Furthermore, in June 2009, Bradesco announced the acquisition of Banco Ibi S.A. These transactions consolidated the presence of a few full service financial institutions with strong brands, national distribution networks, large retail deposit bases and diversified product portfolios. Despite the large number of financial institutions in Brazil, according to the Central Bank, as of September 30, 2009, the four largest banks and financial conglomerates had an approximately 58.0% market share in terms of credit volume and an approximately 67.0% market share in terms of deposits within the overall finance industry in Brazil.

The Financial Crisis and the Central Bank's Response

After the Lehman Brothers bankruptcy in September 2008, the global financial markets experienced a sharp decline. In an environment of increasing risk aversion and high volatility, investors and depositors turned to quality that has benefited the large Brazilian full service banks. Mid- and small-sized banks, most of which had their funding sources concentrated in time deposits from institutional investors, soon started to suffer from lack of appropriate funding, and had to take measures to sustain liquidity. These measures included the reduction or even the termination of the generation of new credit and the sale of outstanding loan portfolios to large full service banks. In specific cases, some of the market participants decided to exit from entire niches given the lack of appropriate and stable funding sources.

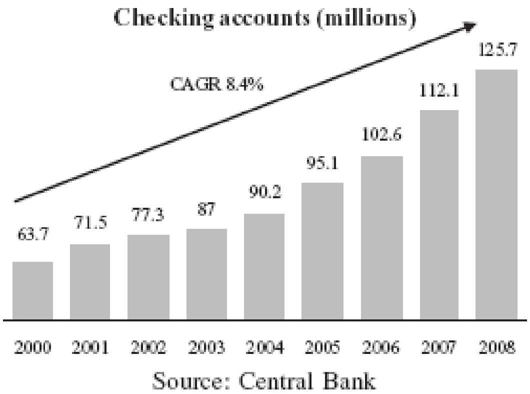
In order to increase confidence in the financial system, the Central Bank announced in 2008 and 2009 several initiatives to boost liquidity and support the mid-sized banks, including: (1) a change in the compulsory requirements of demand deposits and time deposits, (2) delays in the compulsory payment schedule, (3) an increase in the portion of compulsory deposits that could be released to acquire credit portfolios from other banks and (4) the amendment to the bylaws of *Fundo Garantidor de Crédito*, or "FGC", in order to provide insurance on deposits up to the amount of R$20 million. In the beginning of 2010, the Central Bank reverted some of the rules related to compulsory requirements to the levels which were in place before the financial crisis.

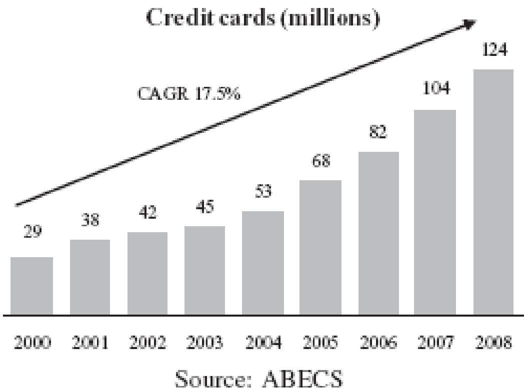
The Brazilian full service banks largely benefited from this flight to quality by acquiring loan portfolios at attractive prices and experiencing a reduction in the competition from other banks that were active in specific niches, i.e. payroll loans, automobile finance and SME credit, prior to the crisis.

Recent Performance

The successful macroeconomic policy implemented by the Brazilian government during recent years contributed to an increase in demand for credit in Brazil. The three basic principles of floating exchange rate, fiscal surplus and inflation targets created an environment of stability that permitted the reduction in interest rates and improvement of the government debt profile. We believe these factors had a direct impact on the overall real income of the population and as a consequence, on the increase in the penetration of banking products and services in Brazil. According to the Institute for Applied Economic Research, or "IPEA", Brazilian annual GDP per capita has duplicated from R$8,357 in 2003 to R$16,417 in 2009. Also, according to the IBGE, the Brazilian unemployment rate decreased by 3.6% during the same period, from 11.7% to 8.1%. This favorable macro economic environment contributed to the growth of the middle class and consequently greater demand for financial products. In addition, different human resource policies that have been implemented in the market have contributed to the opening of bank accounts, as a significant number of employers prefer to directly deposit their employees' salaries into checking accounts. This has increased the number of people with access to banking products.

This increase in penetration of financial services can be seen in the increase of two products that are key to banking relationships. Between 2000 and 2008, approximately 62.0 million new checking accounts were opened in Brazil, equivalent to a compounded annual growth rate, or "CAGR", of 8.9%. In 2000, there were 63.7 million checking accounts in Brazil, while by the end of 2008 there were 125.7 million, according to the most recent data from the Central Bank. During the same period, the number of credit cards grew by more than three times, from 29.0 million to 124.0 million, equivalent to a CAGR of 17.5%.





Credit Market in Brazil

The Brazilian credit market comprises two major types of loans: (i) mandatory or earmarked credit, which is subject to government controlled interest rates and follows rules for funding and destination defined by law (including BNDES loans); and (ii) market–based credit which is not subject to constraints regarding interest rates. By December 31, 2009, of the total R$1.411 billion in outstanding credit in Brazil, 67.2% of the portfolio consisted of market-based credit and 32.8% of mandatory or earmarked credit, according to the Central Bank.

	2005	2006	2007	2008	2009
Total Credit Outstanding	**607,023**	**732,590**	**935,973**	**1,227,294**	**1,411,841**
Earmarked credit	203,316	234,258	275,162	356,117	457,046
Market based credit	403,707	498,331	660,810	871,178	954,795
of which:					
corporate	212,976	260,363	343,250	476,890	484,945
individuals (retail)	190,731	237,968	317,561	394,287	469,850

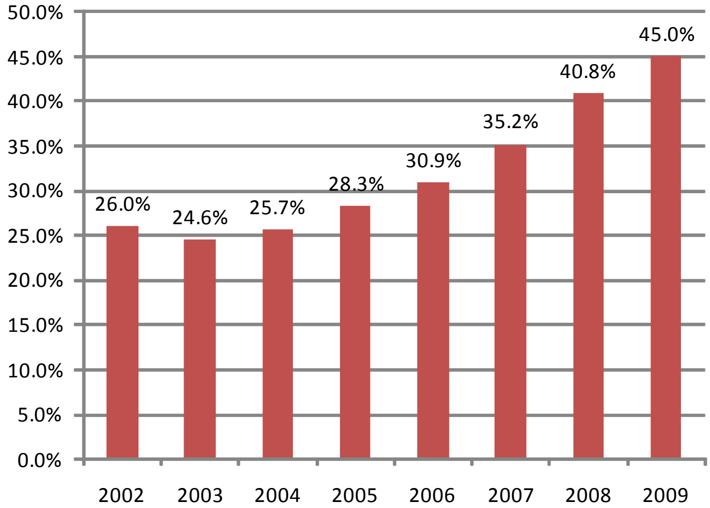
Source: Brazilian Central Bank.

In terms of destination, at the same date, 63.0% of the total R$1.411 billion outstanding loans were directed to corporate, and 32.8% to individuals. The reminder 4.2% refers to direct loans to the public sector, not including bonds.

	2005	2006	2007	2008	2009
Total Credit Outstanding	**607,023**	**732,590**	**935,973**	**1,227,294**	**1,411,841**
to public sector (excluding bonds)	20,556	18,872	18,833	27,217	58,974
to private sector	586,466	713,718	917,141	1,200,077	1,352,867
of which:					
individuals (retail)	188,784	235,816	314,353	389,541	462,457
corporate	397,682	477,902	602,788	810,536	890,410

Source: Brazilian Central Bank.

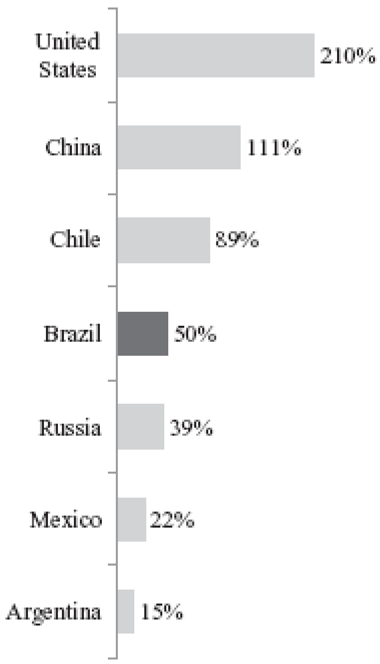
Total Credit as a percentage of GDP



Source: Brazilian Central Bank.

Despite the steady increase in credit penetration experienced in recent years, the Brazilian financial market still presents a relatively low credit penetration as compared to that of other developed and emerging markets.

Total Domestic Credit as a Percentage of GDP in 2007.



Source: World Bank Report 2009 relating to 2007.

Retail Credit

According to data disclosed by the Central Bank, the total outstanding consumer credit increased at an average compounded rate of 26.5% per year since December 31, 2002, to R$469.0 billion at December 31, 2009, or 33.0% of all outstanding credit in Brazil. On the same date, personal credit and auto financing accounted for 49.0% and 28.0%, respectively, of all outstanding consumer credit.

The following table below shows the growth of consumer credit outstanding, by product.

	2005	2006	2007	2008	2009	CAGR 2005-2009
			(In millions of R$)			
Overdraft Accounts	10,974	11,760	12,985	16,040	15,787	9.5%
Personal Credit	63,444	79,893	100,928	127,933	159,923	26.0%
Credit Card	11,260	13,418	17,150	22,088	25,668	22.8%
Mortgage Financing	956	1,211	2,270	3,554	4,500	47.2%
Consumer Goods (excluding autos)	10,229	10,779	12,460	11,600	9,439	-1.99%
Autos	50,685	63,475	81,481	82,433	91,790	16.0%
Leasing	8,427	13,877	30,136	56,712	63,218	65.5%
Others	34,756	45,554	60,150	73,927	99,525	30.0%
Total	**190,731**	**239,968**	**317,561**	**394,287**	**469,850**	**25.3%**

Overdraft facilities are usually offered by institutions that accept demand deposits, generally the major retail banks, including the foreign conglomerates. Charges are relatively high, so we believe consumers use this line of credit as a last resource. This type of credit is frequently used by consumers with limited access to credit; it is unsecured and does not have to be used for a specific purpose. The major retail banks offer this product to their existing client base through their branch network, while niche focused small and mid sized banks do so through small outlets in Brazil's major cities.

Payroll loans are an alternative source of unsecured consumer credit in Brazil. Because installment payments are deducted directly from the borrower's payroll, interest rates are lower than those charged on traditional credit lines. According to the Central Bank, payroll loans have a low level of default and represent the fastest-growing type of consumer credit in Brazil. Historically, the cost of access to more traditional credit facilities has been high, for various reasons, including competition within the banking industry, legal and institutional limitations and the nature of the credit risks. As a more attractive alternative to unsecured consumer credit, payroll loans have replaced some of the traditional consumer credit products.

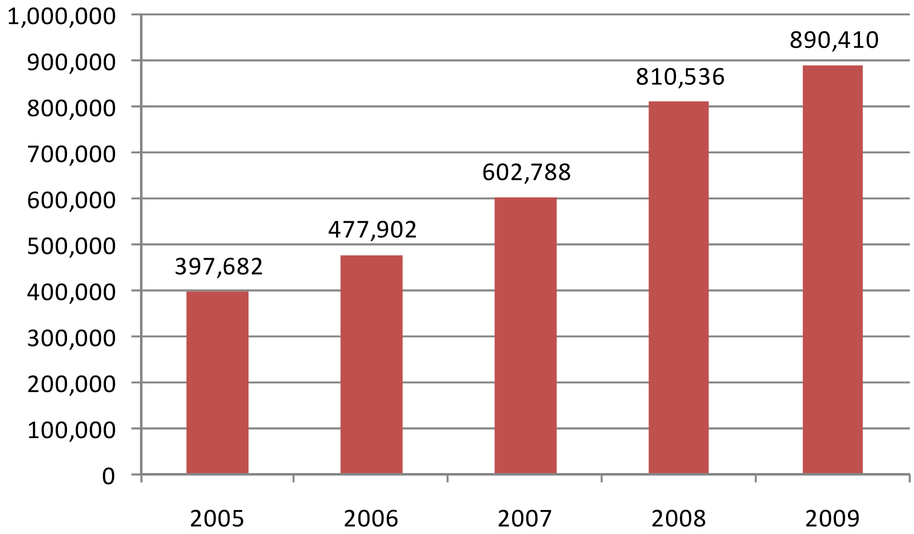
The vehicle financing market is dominated primarily by the major retail banks that are gradually taking over this market, which was once dominated by the financing arms of automakers. The interest rates in this market are very competitive and access to an attractive source of financing is an important advantage. The smaller institutions acting in this market in most cases focus on pre-owned vehicle lending products. Default rates are relatively low as compared to other credit lines and the loans are secured by the goods being financed. Credit card financing is dominated by the major retail banks that operate their own labels associated with international labels such as MasterCard and Visa. This type of financing has relatively high levels of default; as a result, interest rates are also higher than that of other credit lines.

In-store financing relates to financing of durable consumer goods such as construction materials and household appliances, as well as non-durable goods, such as clothing and food. The in-store financing market is the most fragmented consumer finance market in Brazil. The major retail chain stores traditionally finance their customers' purchases. In recent years, however, stores have reached agreements with banks interested in taking over these financing operations.

Payroll loans are an alternative source of unsecured consumer credit in Brazil. Because installment payments are deducted directly from the borrower's payroll, interest rates are lower than those charged on traditional credit lines. According to the Central Bank, payroll loans have a low level of default and represent the fastest-growing type of consumer credit in Brazil. Historically, the cost of access to more traditional credit facilities has been high, for various reasons, including competition within the banking industry, legal and institutional structures and the nature of the credit risks. As a more attractive alternative to unsecured consumer credit, payroll loans have replaced some of the traditional consumer credit products.

Corporate Credit

The heritage of high inflation and the lack of long term credit lines to Brazilian corporations resulted in an overall relatively low level of corporate leverage. Despite that, according to the Central Bank, the volume of corporate credit (including regulated funds) increased significantly from R$283.3 billion in December 2003 to R$890.4 billion in December 2009, representing an average CAGR of 17.7%. Of the total amount, loans of up to R$100,000 and between R$100,000 and R$10.0 million represents respectively 16.4% and 37.6% of total corporate credit. The table below reflects the evolution of corporate loans by amount in billions of *reais*.



Loans ranging between R$100,000 and R$10.0 million represent the greatest portion of corporate credit, accounting for 37.6% of the total amount as of November 2009. There is a trend towards extension of the average maturity of corporate loans in Brazil. Although very short-term loans (maturing within 180 days) still accounted for 36.0% of the total loans to corporations in Brazil as of December 2009, medium- and long-term loans have increased between December 2002 and December 2009 according to the Central Bank.

The key products available to corporations are revolving credit, working capital loans, “compror” and “vendor” loans, and note discounting, as described below.

Revolving credit is a short-term revolving line of credit available to companies, which guarantees immediate liquidity. In general, the interest charged is calculated daily based on the outstanding balance plus a tax on financial transactions, payable on the first business day of the month following the transaction.

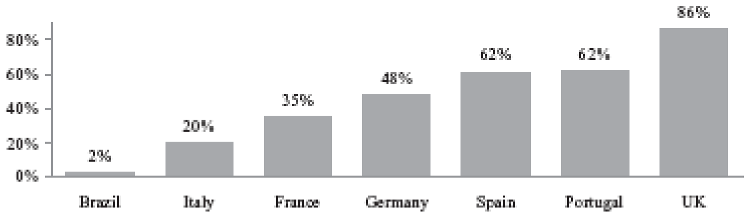
Working capital loans consist of advances of funds to meet borrowers’ working capital needs. In general, the repayment period is up to 180 days. The “vendor” loan, or receivables financing, consists of financing so that a company can sell its products on credit while receiving payment in cash. The main advantage of this type of financing is that the sale is not financed directly by the company selling the product and as a result, the calculation base for the collection of tax and sale commissions is smaller. The “compror”, or payables financing loan is the opposite of the “vendor” loan in that it allows the buyer to extend the repayment period of a purchase without involving the seller because the buyer is the obligor of the loan.

Note discounting transactions consist of providing advances on amounts relating to instruments such as trade acceptance bills, promissory notes, credit card sale receipts or postdated checks aimed at anticipating the cash flow of the borrower companies. Recourse against the borrower is guaranteed to the bank processing the discounting in the event of non-payment of the notes.

Mortgage Financing

The mortgage market is still developing in Brazil, with total credit lines accounting for only 2.0% of the GDP in 2007 as outlined in the graph below.

The table below provides the level of mortgage loans as a percentage of GDP in selected countries.



Source: Gwinner, B. (2007), Finance for Growth (2001) The World Bank.

We believe the level of real estate financing in Brazil will grow as a result of several structural trends. According to the IBGE, the housing deficit in Brazil as of December 31, 2007 exceeded 7.2 million households. Most of this deficit is concentrated in the Southeast region of Brazil (37.2%), followed by the Northeast (34.2%), South (11.2%), North (10.3%) and Center-West (7.0%).

In addition, one of the priorities of the current Brazilian government is to stimulate growth of the housing construction sector, as a means to address the housing shortage and providing employment. The government has adopted a number of important policies with the aim of bolstering real estate demand through tax incentives and expanding the home loan market, including:

- tax incentives and exemptions;
- increasing house-builders’ security by offering guarantees on properties;
- increasing home buyers’ security through a special tax system that separates the house-builders’ assets from the specific building projects’ assets; and
- simplifying and intensifying the enforcement of foreclosure laws.

We expect the reduction in interest rates and controlled inflation, combined with the existing housing deficit and government support to contribute to an increase in demand for mortgage financing in Brazil.

Asset Management

According to ANBIMA, the asset management industry in Brazil has been growing at significant rates in recent years. The volume of assets under management grew approximately 4.5%, from R$1,187.8 million as of July 16, 2008, to R$1,241.5 million as of July 16, 2009. Since 2002, the investment fund industry has undergone material changes, resulting from regulations that assigned the supervision of this activity to the CVM. These regulations encouraged market players to adopt better corporate governance practices and increase transparency in the management of investment funds.

The asset management industry in Brazil is concentrated among fund managers controlled by large financial conglomerates, making access to retail distribution channels particularly important for the industry. The main clients of this industry are institutional investors, such as private pension entities, insurers and private banking clients. Some of the main drivers that which contribute to the growth of the asset management industry are as follows:

- economic stability in Brazil and increased disposable income and savings;

- expansion of the insurance and private pension markets influenced, in part, by the growth of products such as private pension plans (for example, both VGBL and PGBL) whose assets increased the volume of assets under management of the Brazilian mutual fund industry;
- improved credit ratings of Brazilian issuers;
- increased access to financial products offered over the internet;
- refinements to Brazilian mutual fund regulations; and
- improved conditions in the Brazilian capital markets.

Insurance

Insurance revenues in Brazil are generated by the sales of auto, other property and casualty, health, credit life and life insurance policies (which includes both life and personal injury insurance policies but excludes private pension (VGBL) plans).

In recent years, the Brazilian insurance industry has posted strong figures. According to SUSEP, from 2002 to 2008, the annual growth rate of total direct premiums was approximately 183.6%, which is 68.9% higher than the growth in the global insurance industry and 6.1% percentage points higher than the Brazilian nominal GDP growth.

Brazil, however, is an under-penetrated market in terms of insurance products. According to SwissRe in its Sigma report as of May 2009, Brazil was ranked the 17th largest insurance market globally, behind smaller economies such as South Africa, the Netherlands and Australia. In 2008, the Brazilian insurance industry contributed 3.0% to the GDP, 4 percentage points below the global average of 7.0%. In terms of premiums per capita, Brazil still lags behind with U.S.$245 versus the world average of U.S.$634 per year.

BUSINESS

History

Santander Group in Brazil

The Santander Group has expanded its footprint worldwide through a number of acquisitions and the successful integration of the acquired businesses to achieve synergies.

In 1957, the Santander Group first entered the Brazilian market through an operating agreement with Banco Intercontinental do Brasil S.A. Since the 1990s, the Santander Group has sought to establish a strong Latin American presence, particularly in Brazil. The Santander Group pursued this strategy through organic growth as well as acquisitions. In 1997, the Santander Group acquired Banco Geral do Comércio S.A., a medium-sized retail bank, which subsequently changed its name to Banco Santander Brasil S.A. In the following year, the Santander Group acquired Banco Noroeste S.A. to further strengthen its position as a retail bank in Brazil. In 1999, Banco Noroeste was merged into Banco Santander Brasil. In January 2000, the Santander Group acquired Banco Meridional S.A. (including its subsidiary Banco Bozano, Simonsen S.A.), a bank active in retail and wholesale banking primarily in Southern Brazil.

Since 1997, the Santander Group has consistently demonstrated its ability to execute significant acquisitions in Brazil, integrate the acquired companies into its existing business and improve the acquired companies' operating performance. This was the case, in particular, with the acquisition in November 2000 of Banco do Estado de São Paulo S.A., or "Banespa", a bank owned by the State of São Paulo. Through this acquisition, the Santander Group transformed itself into one of Brazil's largest financial groups with strong retail and wholesale banking operations strategically positioned in the South and Southeast of the country. Following the acquisition, the Santander Group implemented an information technology modernization at Banespa. Within a year of the acquisition, Banespa's efficiency ratio improved significantly.

Despite operating in Brazil under different legal entities, the Santander Brasil Group has had centralized management and administrative functions since 2000. In 2006, the Santander Brasil Group, following shareholder and Central Bank approval, consolidated its investments into one entity — Banco Santander Banespa S.A., which was renamed Banco Santander (Brasil) S.A. on April 17, 2009, thereby simplifying our corporate and tax structure, improving our operating efficiency and reducing administrative costs through the integration and upgrade of the different information technology platforms. In 2007, the Santander Group implemented a brand unification program.

Banco Real Acquisition

On November 1, 2007, RFS Holdings B.V., a consortium comprising Santander Spain, The Royal Bank of Scotland Group PLC, Fortis SA/NV and Fortis N.V., acquired 96.95% of the shares of ABN AMRO, the controlling shareholder of Banco Real. On December 12, 2007, the Brazilian antitrust authorities (*Conselho Administrativo de Defesa Econômica — CADE*) approved without conditions the acquisition of ABN AMRO's Brazilian entities by the consortium. In the first quarter of 2008, Fortis and Santander Spain reached an agreement whereby Santander Spain acquired the right to the Brazilian asset management activities of ABN AMRO, which Fortis had acquired as part of the consortium's purchase of ABN AMRO. On July 24, 2008, Santander Spain took indirect share control of Banco Real, which it then incorporated into the Santander Group to consolidate its investments in Brazil. At shareholders meetings of each of Santander Brasil and Banco Real held on August 29, 2008, the acquisition by Santander Brasil of Banco Real's share capital was approved through a share exchange (*incorporação de ações*), and Banco Real became a wholly-owned subsidiary of Santander Brasil. At the time of the share exchange (*incorporação de ações*), Banco Real was the fourth largest private Brazilian bank in terms of assets. As a result of the share exchange (*incorporação de ações*), Santander Brasil became the third-largest private bank in Brazil in terms of assets. On April 30, 2009, Banco Real was merged into Santander Brasil and ceased to exist as a separate legal entity. The merger is pending approval by the Central Bank.

Integration of Santander Brasil and Banco Real

We began integrating the operations of Banco Real into Santander Brasil shortly after the share exchange (*incorporação de ações*) was approved on August 29, 2008. As part of this process, we established an "integration office", responsible for coordinating our integration plans, providing support and planning. Prior to initiating the integration process, we established certain key goals to structure and conduct the integration, including:

- maintaining and improving customer service;
- identifying operational strengths of each bank and maintaining and leveraging such strengths;
- establishing a new business culture among our employees, focusing on our strengths;
- retaining and developing trained and talented employees; and
- achieving annual operating and financial targets.

One of our objectives in developing our integration plan was to identify the strengths of each bank in each of the areas identified above and developing an overall strategic vision for the combined operations. As part of this process, we conducted extensive reviews over a two-month period comparing, among others, each bank's operating model, brand awareness and human resources practices to identify and establish the best practices at each bank that would be used when integrating the operations of both banks. In addition, in an effort to identify the best practices of each bank, approximately 900 individuals across the two banks, from technicians to systems operators, were involved in our "plans for project definition", pursuant to which they identified and analyzed the differences across the two banks' technology systems, products, operating processes and policies. Based on these efforts, we developed an "Integration Framework", setting forth the requirements for a fully integrated bank operating under the Santander brand, with a consistent business model and credit and operational risk management.

Our Integration Framework encompasses four main initiatives:

- *Systems Plan:* Identify the different functions of the information technology system of each bank and implement the transition to a single information technology platform, designing contingency plans and processes for information technology conversion. Santander Brasil's information technology platform was chosen as the base platform due to its robustness, flexibility and user-friendly interface. The information technology platform, which we expect to implement fully in 2010, is designed to utilize the best practices of both banks.
- *Integration Steps:* Identify different steps to present the future vision of the business, process and policies of the two banks. Of these steps, approximately half of them have already been completed and the remaining steps are in process and are expected to be completed by the end of 2009. One recently initiated step is the integration of branch networks, which will be an area of primary focus until the information technology systems integration is complete.
- *Synergies:* Identify methods to take advantage of cost synergies across the organization.
- *Change:* Monitor and evaluate changes resulting from the integration. Our change management team is focused on defining the necessary steps to take advantage of positive changes resulting from the integration and to minimize negative changes. Such steps include, among others, employee training and development, developing and maintaining clear internal communication and customer communication.

The integration process is moving according to schedule. Several important stages were completed in 2009, relating to the unification of the back office, wholesale banking, enterprises, corporations, private banking and the integration of the ATMs for key banking operations. In terms of products, the launch of improved *Santander Master* and *Real Master* products was a milestone in this process, as it brought together the best ideas of each bank through a single product offered to the clients of both banks. Notable among the initiatives taken in the fourth quarter 2009 are:

- the integration of brokerage entities;
- the unification of customer service models, reducing the involvement of branches in operational activities;
- the offering of products from both networks, such as the Flex Card and Van Gogh services to Santander's high-income clients;
- the unification of our administrative offices;
- the definition of the unified commercial model and implementation of a model that focuses on closer relations with clients, business efficiency and a balance between results, productivity and quality; and
- the creation of a unified platform for insurance offerings (personal accident, residential and auto insurance), with additional insurance partners (Marítima and SulAmerica).

In addition to integrating our operations, we have implemented new employee policies, covering five main areas: health, wellness, personal and professional development, family, and day-to-day employee life, and we have established a new employee structure. We are in the process of establishing our model and policy for risk management in retail banking, which is one of the final steps in the process of integrating our credit and market risk practices.

We expect that the integration will generate cumulative cost synergies of approximately R$2.4 billion and revenue synergies of approximately R$300 million by December 31, 2011. In 2009, we had R$1.1 billion in cost synergies, above our initial expectation of R$800 million. See "Risk Factors—Risks Relating to Santander Brasil and the Brazilian Financial Services Industry —We may fail to recognize the contemplated benefits of the acquisition of Banco Real" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Other Factors Affecting Financial Condition and Results of Operations—Goodwill of Banco Real."

Business Overview

The following chart sets forth our operating segments and their main focus.

Commercial Banking	Global Wholesale Banking	Asset Management and Insurance
• Retail banking	• Global corporate clients, or GB&M	• Asset management
— Individuals — Small and medium-sized businesses with annual gross revenues of less than R$30 million, or "SMEs"	• Treasury	• Insurance
• Enterprises with annual gross revenues in excess of R$30 million but less than R$250 million		
• Corporations with annual gross revenues in excess of R$250 million (other than global corporate clients)		
• Consumer finance		

The following table sets forth the breakdown of our net interest income and profit before tax by operating segment.

	For the Year Ended December 31,							
	Net Interest Income				Profit before tax			
	2009	2008 (Pro Forma)	2008	2007	2009	2008 (Pro Forma)	2008	2007
	(In millions of R$)							
Commercial Banking	20,260.3	17,719.1	10,197.1	5,491.8	4,894.4	2,919.3	877.5	1,111.9
Global Wholesale Banking	1,766.8	1,439.6	1,213.5	693.3	2,650.8	1,835.2	1,526.4	1,482.8
Asset Management and Insurance	139.9	72.3	32.8	10.2	591.8	317.5	144.9	92.4
Total	**22,167.0**	**19,231.0**	**11,438.0**	**6,195.3**	**8,137.0**	**5,072.0**	**2,548.8**	**2,687.1**

(1) Does not include insurance operations that became part of the segment following the restructuring.

Commercial Banking

Our Commercial Banking segment's activities include products and services for retail customers, enterprises and corporations (other than global corporate clients who are served by our Global Wholesale Banking segment) and our consumer finance business.

Retail Banking

Our retail banking customer base includes individuals and SMEs with annual revenue of less than R$30 million and certain government institutions. Individual customers are divided into private banking customers, with a minimum of R$1.0 million in assets available for investment; high income customers, with monthly income in excess of R$4,000; mid income customers, with monthly income between R$1,200 and R$4,000; and low income customers, with monthly income below R$1,200. We believe that our clear customer classifications allow us to target customers with products that fit their specific needs. Our focus is on high and mid income customers, areas in which we see growth as a result of continued high social mobility in Brazil, accompanied by rising income levels.

We follow different service models for each customer class:

- *High-income customers:* Our model includes exclusive branches and differentiated areas in our regular branches and is based on personal relationships with our account managers, to provide privacy, priority and special attention to these customers.

- *Mid-income customers:* We use a multi-channel service model, supported by our account managers. We provide differentiated services to customers we view as upwardly mobile.

- *Low-income customers:* Our emphasis is on serving customers through alternative channels. In our branches, these customers are served under a standardized model through pools of managers, with a sales-oriented approach. Differentiated services are offered to customers we view as upwardly mobile.

- *SMEs:* For medium-sized enterprises, our model is centered on a relationship with the account manager while for small-sized enterprises, we rely more on multi-channel distribution. Special platforms are used to offer differentiated services to clients with a high earnings potential.

At December 31, 2009, our retail banking operations had approximately 22.3 million customers, consisting of approximately 21.3 million individuals and 1.0 million SMEs, an increase of 1.3 million individuals and 97,000 SMEs, respectively, from December 31, 2008. At December 31, 2009, we had approximately 10.2 million current account holders according to data from the Central Bank, an increase of 1.0 million customers from December 31, 2008.

The range of products and services we offer to our retail customers includes:

- current accounts, saving accounts and time deposits;
- loans to individual customers, including consumer finance, personal loans and payroll loans;
- credit cards;
- loans to SMEs;
- agricultural loans;
- mortgages;
- leasing;
- insurance and asset management products;
- private retirement plans; and
- cash management services for SMEs.

In our retail banking business, we provide a broad range of products and services, and centralize banking transactions of our customers in order to increase the number of products used per customer. Our goal is to be the bank of choice for our customers, in particular in the high and mid income classes. In the year ended December 31, 2009, our average individual customer had 13.9 banking transactions per month (including queries).

Deposit-Taking Activity

We offer our customers a variety of deposit products, such as:

- current accounts (also referred to as demand deposits), which do not bear interest;
- traditional savings accounts, which currently earn the Brazilian reference rate for savings accounts (*taxa referencial*) plus 0.5% per month, as set by the federal government; and
- time deposits, which are represented by certificates of bank deposits, or "CDBs", which normally have a maturity of less than 36 months and earn interest at a fixed or floating rate.

In addition, we accept deposits from financial institutions as part of our treasury operations, which are represented by certificates of interbank deposit, or CDIs, and which earn the interbank deposit rate. In addition to representing a significant source of stable funding for us, we regard each account holder as a potential customer for the full range of products and services we offer.

The table below presents a breakdown of our deposits by product type at the dates indicated.

	At December 31,		
	2009	2008	2007
	(In millions of R$)		
Customer deposits			
Current accounts	15,140	15,298	6,588
Savings accounts	25,216	20,643	6,288
Other demand deposits	–	–	26
Time deposits	74,634	88,880	26,028
Repurchase Agreements	34,450	30,674	16,281
Total customer deposits	**149,440**	**155,495**	**55,211**
Deposits from the Brazilian Central Bank and credit institutions			
Time Deposits	20,838	26,721	11,949
Other demand accounts	195	66	61
Repurchase agreements	164	31	6,834
Total	**21,197**	**26,818**	**18,844**

Credit Operations

The following table shows a breakdown of our credit portfolio by client category at the dates indicated.

	At December 31,			Change, December 31, 2009 vs. December 31, 2008	
	2009	2008	2007	R$ Million	%
	(In millions of R$)				
Retail	62,578	58,748	17,766	3,831	7%
Individuals	41,394	36,879	13,515	4,515	12%
SMEs	21,184	21,869	4,251	(684)	-3%
Consumer finance	25,892	25,108	4,315	784	3%
Enterprises	8,706	10,203	2,812	(1,497)	-15%
Corporations	7,765	8,915	3,168	(1,150)	-13%
Global corporate clients	26,347	30,928	12,066	(4,581)	-15%
Total	**131,288**	**133,902**	**40,127**	**(2,614)**	**-2%**

Retail Lending

We offer our retail lending products to customers through our extensive branch network and on-site service units. See "—Distribution Network." We divide our customers into separate categories based principally on their monthly income (for individuals) and annual gross revenues (for businesses). We tailor our products and services to the needs of each customer classification.

We make credit available to our customers through the various loan products listed in the table below. The table sets forth our individual customer loan portfolio at the dates indicated.

	At December 31,			Change, December 31, 2009 vs. December 31, 2008	
	2009	2008	2007	R$ Million	%
	(In millions of R$)				
Payroll loans	7,641	7,244	2,400	397	5%
Account overdraft loans	2,713	2,939	882	(226)	(8%)
Consumer finance	1,979	1,694	942	284	17%
Personal loans	10,547	9,873	2,613	674	7%
Credit cards	7,587	6,490	2,434	1,098	17%
Mortgages	5,137	4,568	1,663	570	12%
Other(1)	5,790	3,840	2,581	1,950	51%
Total	**41,394**	**36,648**	**13,515**	**4,746**	**13%**

(1) Other includes agricultural loans, BNDES on-lending, and overdraft facilities.

Personal Loans

A personal loan is similar to a consumer loan except that the proceeds may be used for general purposes. Personal loans have maturities of up to 48 months and the monthly installments to be paid by the customer may not exceed 30.0% of such customer's monthly salary.

Payroll Loans

Payroll loans are a typical retail product with a differentiated method of payment. Monthly installments are deducted directly from the customer's payroll by their employer and then credited to the bank. We believe that this significantly reduces the credit risk. Our customers are typically employees from the public sector or state pension holders (together representing approximately 73.0% of our credit portfolio). No single entity is responsible for more than 10.0% of our payroll loans in the aggregate. This product represents approximately 22.0% of the retail credit market in Brazil. We had an approximate 7.0% of market share in payroll loans at December 31, 2009, according to the Central Bank.

Credit Cards

We participate in the credit card market through the issuance of Visa and MasterCard credit cards to our customers (deposit account holders and non-deposit account holders). Our income from credit cards includes interchange merchant fees, interest on credit card balances, annual cardholder fees and fees charged for cash advances. We market our credit cards through our branch network and direct sales (telemarketing, customer care centers and direct marketing campaigns). As of December 31, 2009, we had issued approximately 9.7 million credit cards, which were accepted at sales outlets worldwide. Our strategy is based on market share and profitability growth, through product innovation and aggressive customer acquisition efforts. Since 2006, we have launched credit card products designed to fit the needs of various customers' profiles and aimed at encouraging demand for our products. These differentiated credit cards have allowed us to increase our card portfolio by approximately 66.1% since 2006. Nearly all of the growth in this product offering is due to innovative products created by Santander, such as Santander Light, a credit card with a lower interest rate than other credit cards, and Santander Reward, a credit card that offers cash back.

On January 14, 2010, we entered into an association agreement with Getnet Tecnologia em Captura e Processamento de Transações Eletrônicas Hua Ltda. (Getnet) to, jointly operate, develop and sell, in the Brazilian market, services to capture and process credit and/or debit cards transactions.

Account Overdraft Loans

Account overdraft loans (*cheque especial*) are made available under an overdraft facility, subject to a limit for each customer established based on a dynamic scoring system. Given that it is an unsecured product, the product carries a higher interest charge than any of our other financing operations.

Consumer Finance

We provide consumer finance products to deposit and non-deposit account holders through *Aymoré Financiamentos S.A.*, a financing company specializing in providing consumer credit directly to borrowers or through intermediate agencies. At December 31, 2009, we had over 10,000 active dealers, 1,300 sales employees and 150 branches throughout Brazil. Our core business, vehicle financing, comprised approximately 86.0% of our consumer finance business at December 31, 2009, and we had a 16.5% market share in terms of credit portfolio in the Brazilian vehicle finance business at the same date, according to the Central Bank. We specialize in the financing of goods and services through customer direct credit or leasing. We also finance various products and services, such as computers, tourism, furniture, hospital and odontological equipment, nautical equipment, automobile parts and automotive services. We focus on offering fast credit approval, and our consumer finance business is supported by our long-standing relationships with important companies such as Renault, Peugeot, Citroën, Dell, and Microsoft. Our acquisition of Banco Real was complementary to our pre-existing operations because Santander had a relatively small market share in consumer finance operations compared to Banco Real.

Mortgages

We offer loans to our customers for the purchase of real estate secured by mortgages. In 2005, we were the first bank in Brazil to offer a mortgage product with monthly fixed installments with a maturity of up to 10 years. We currently offer mortgages with a maturity of up to 30 years. We also offer credit lines to corporate customers in the real estate construction industry for the financing of up to 80% of the project construction cost. We have a leading position in this business among non government-owned banks and, at December 31, 2009, we had a 9.0% market share in Brazil in terms of amounts outstanding, according to the Central Bank.

In addition, as a result of the acquisition of Banco Real and our strategy of launching innovative products, we believe we have achieved a leading position among private banks in the housing loan sector. For example, we have used the Santander Group's expertise in certain products which have been successful in other countries to launch the first mortgage loan offered by a private bank in Brazil with fixed or inflation index linked installments of a 30-year maturity. At December 31, 2009, total housing loans, including new construction loans, amounted to R$9.0 billion, representing approximately 6.4% of our total credit portfolio.

On average, the loan-to-value ratio of our housing loans is 55%. We do not offer mortgage loans that do not meet the prime standards, that is, we do not make any loans for more than 80% of the value of the property to be purchased, borrowers must meet certain minimum monthly income levels as evidenced by recent payroll information and tax returns, and payments may not exceed 27% of borrowers' monthly income. Borrowers must provide satisfactory documentary evidence to confirm their employment or other types of revenue and to otherwise evaluate their credit risk profile.

Corporate Lending (for Customers Served by our Commercial Banking Segment)

We offer a wide range of credit products to our corporate customers, including general corporate and working capital financing, lease financing and foreign trade financing, as well as deposit-taking and other services. As of December 31, 2009, we had approximately 1.0 million SME customers, approximately 4,700 enterprise customers, which we define as companies with annual gross revenues of between R$30 million and R$250 million, and 600 corporate customers, which we define as companies with annual gross revenues exceeding R$250 million. Our corporate customers include companies across all industry sectors. Our SME and corporate client coverage is through our officers who are allocated according to the customer's geographic location. We have client coverage officers in Rio de Janeiro, Belo Horizonte, Porto Alegre and Recife.

The table sets forth our SME loan portfolio at the dates indicated.

	At December 31,			Change, December 31, 2009 vs. December 31, 2008	
	2009	**2008**	**2007**	**R$ Million**	**%**
	(In millions of R$)				
Agricultural lending — specific funding	2	6	5	(4)	(74%)
Agricultural lending — required reserves	125	125	52	(0)	0%
Working capital loans	9,144	8,218	928	926	11%
Buyer financing	29	194	36	(165)	(85%)
Vendor financing	4	8	2	(4)	(50%)
Discounted receivables	261	419	181	(158)	(38%)
Overdraft facility	2,969	4,573	1,077	(1,604)	(35%)
Comex	120	176	52	(56)	(32%)
Refinancing	1,372	713	126	659	92%
Special credit	11	34	33	(23)	(68%)
BNDES on-lending	1,216	1,118	76	98	9%
Agricultural equipment financing	20	17	19	3	18%
Agricultural on-lending(1)	29	25	–	4	17%
Account overdraft loans	1,013	1,515	352	(502)	(33%)
CDC/leasing	2,430	2,828	75	(398)	(14%)
Other(2)	831	561	38	270	48%
Total	**19,575**	**20,529**	**3,052**	**(954)**	**(5%)**

(1) On-lending of funds borrowed by Brazilian financial institutions from foreign lenders, in accordance with specific Central Bank regulations.
(2) Other includes credit cards and mortgage finance products.

BNDES On-Lending

We provide medium and long term financing for the development of investment projects, the commercialization of machinery and equipment, exports and working capital. On these transactions Santander acts as the accredited financial institution, transferring resources from BNDES, according to the rules and credit limits previously set.

BNDES resources come from the Social Integration Program (*Programa de Integração Social*), or PIS/PASEP, the Worker Aid Fund (*Fundo de Amparo ao Tabalhador*), or FAT, the National Treasury and others, devoted to finance the economic growth of the country financing expansion projects, modernization and infra-structure adequacy, including the acquisition of machines, equipment and heavy vehicles.

These operations are generally granted at attractive interest rates and with a maturity rate up to ten years, exceeding the available maturity for most of the other transactions in Brazil.

By financing loans with BNDES resources, Santander does not take risks on rates. We take, however, the company's credit risks and therefore we apply the same credit analysis criteria that we use for our other loans. This product is offered to every segment including our Global Banking & Market clients.

Agricultural Lending

The table below sets forth our balance of loans outstanding to customers in the agricultural sector, broken down by size, geography and type.

	At December 31,	
	2009	2008
	(In millions of R$)	
Customer Size		
Small(1)	1,792	1,369
Medium(2)	898	1,090
Large(3)	692	1,438
Geography		
North/Northeast	29	33
Central West	113	130
Southeast	2,334	2,687
South	906	1,047
Type		
Farming	2,442	2,772
Livestock	657	1,028
Dairy	283	255

(1) Includes borrowers in the agricultural sector with annual gross revenues of less than R$30 million.
(2) Includes borrowers in the agricultural sectors with annual gross revenues more than R$30 million but less than R$250 million, which we call "enterprises", and corporations with annual gross revenues in excess of R$250 million (other than Global Banking & Markets customers).
(3) Global Banking & Markets customers.

Our agricultural lending program provides financing primarily for our global corporate clients and corporate medium and large-sized customers. We finance the principal steps of the agribusiness chain, providing loans for harvesting, storage and sales, as well as hardware investments. Loans are usually secured by mortgages, alienation in trust over the crop and equipment. Due to our established presence in this sector, such loans represent a significant portion of our total credit portfolio.

We offer our agribusiness customers general working capital, account overdraft loans, fund management, leasing and trade finance, as well as BNDES funding. Our goal is to allocate loans across agribusiness customers keeping an average amount of approximately R$100 million per transaction. This loan allocation process is carried out in stages, resulting in lower borrower default rates in the agricultural sector. As determined by the Central Bank, Brazilian banks may use funds from their reserve deposits at a fixed rate of 6.75% per annum to fund agribusiness loans. Central Bank regulations require banks to apply at least 30.0% of cash deposits to agribusiness loans. If a bank is unable to meet this threshold it is required to transfer the surplus amount to a non-interest bearing account with the Central Bank.

In 2009, we began offering insurance products for agribusiness operations through an agreement with Seguradora Brasileira Rural (SBR), an insurance company outside of the Santander Group, pursuant to which our customers are insured from weather risks which ultimately mitigates our operational risk. As of December 31, 2009, our insurance portfolio with SBR amounted to approximately R$134 million.

Leasing

We provide leasing for motor vehicles (including cars, vans and tractor-trailers), machinery, equipment and other items for personal and business-related use. As of December 31, 2009, our lease asset portfolio consisted of R$12.2 billion in motor vehicles and R$1.4 billion in machinery, equipment and other items for personal and business-related use. Our total lease asset portfolio at December 31, 2009 of R$13.6 billion is divided into the following classifications: individuals customers (R$10.6 billion), corporate service customers (R$1.6 billion), industry sector customers (R$0.7 billion) and other classifications (R$0.7 billion). Lease credit applications are subject to the same approval process as other individual or corporate credit operations, with initial analysis undertaken at the branch that originates the transaction. If the customer is a corporate customer, a successful application is sent to the Credit Risk Department for further review. Lease terms are typically for a period between two and five years.

Private Banking

The private banking business serves a selected group of clients with a minimum of R$1.0 million in assets available for investment, aiming to deeply understand their short and long term objectives, needs and risk tolerance. Our relationship managers work to develop an ongoing partnership offering the most compatible solutions that best fit each client profile. The private banking business offers to its clients a comprehensive range of financial products and services. As of December 31, 2009, our private banking business managed approximately R$27.0 billion in assets and had approximately 6,500 private banking accounts.

Global Wholesale Banking

We are a leading wholesale bank in Brazil and offer financial services and sophisticated and structured solutions to our customers. In 2008, Banco Real's and Santander Brasil's wholesale banking divisions were successfully integrated. In 2009, we have maintained our focus on four core pillars: (1) strengthening customer relationships, (2) emphasizing performance and productivity to ensure growth, (3) managing risk profiles and (4) solidifying the recognition of our global brand for product distribution.

Our wholesale banking business focuses on global corporate clients (to which we refer as Global Banking & Markets customers) – approximately 700 large Brazilian companies and multinational conglomerates, including the largest companies in Brazil. We also serve multinational subsidiaries of our global clients. Our clients in this business span a range of industries, including energy and resources, telecommunications, financial, construction, infrastructure, agriculture, retail, industrial (including automobile manufacturers) and service sectors. Coverage of these clients is allocated by industry.

Our wholesale banking customers benefit from the global structure of services provided by the Santander Group with its worldwide integrated wholesale banking network, global services solutions and local market expertise. The Santander Group has a global account management structure with a presence in Europe, the United States and elsewhere in Latin America. This structure allows services to be provided in an integrated fashion. Our wholesale business provides our customers with a wide range of domestic and international services, and seeks to provide solutions specifically tailored to the needs of each customer. The Global Wholesale Banking segment's products and services are available not only to our GB&M clients, but also to corporate and SME customers.

The main products and services we provide are:

- Global Transaction Banking, which includes cash management, trade finance and funding alternatives to institutions with international operations;

- Credit Markets, which includes origination units, distribution of structured credit and debt products, debt capital markets and project finance;

- Corporate Finance, which includes mergers and acquisitions, asset and capital structuring and equity investments;

- Equities, which includes equity capital markets, equity derivatives, exchange traded derivatives, global custody and securities services, cash equities and equity research;

- Rates, which offers our customers derivative products, foreign exchange transactions (including for individuals) and other financial products and structures;

- Market Making, which is responsible for the pricing of client deals originated by the sales force from our corporate, institutional, private banking and retail operations; and

- Proprietary Trading, which is responsible for the management of the Bank's proprietary books and the establishment of a relevant presence as a leading liquidity provider across all local markets.

Global Transaction Banking

We created our global transaction banking product areas to address our customers' needs for local and global commercial banking solutions, in particular in the areas of trade finance transactions and cash management activities. The Santander Group separated these businesses from our corporate and investment banking operations as part of our worldwide strategy to address ongoing commercial and financial globalization and internationalization.

Trade Finance. We believe we have a strong market position in transactions related to cross-border financings and guarantees (both trade and non-trade) and trade services. According to the Banking Meeting Report, in 2009, we ranked third in trade finance transactions and first in guarantees and import transactions. Our team of experts provides a complete range of products and services (including trade finance, trade services, export credit agency finance), particularly those related to import and export activities. We have recently developed a Global Services web portal, a delivery channel that allows exporters to create, send and control their export collection transactions.

Cash Management. Our cash management business offers our customers local banking services and financial products. It provides lending, receivables financing and working capital lines in addition to a variety of transactional services such as payments, collections, account balances and other cash management-related activities. The addition of Banco Real's products, branches and customers has increased the scope of and expanded our cash management business to become one of the leaders in the Brazilian market in terms of the number of bills and amounts processed.

In addition to our domestic branches, we operate a Grand Cayman branch, which is used primarily for funding purposes and to finance Brazilian trade-related transactions.

Credit Markets

Our credit markets operations are responsible for the areas of project finance, debt capital markets, syndicated loans, acquisition finance and credit sales and trading.

Project Finance. Our project finance strategy, developed over the past six years, brought us to the leading position in three of four ANBIMA rankings in 2008 (auction advisory, financial advisory and structuring) and kept us again in the leading position in 2009, but with stronger market figures compared to 2008. The market for project finance in Brazil grew significantly in 2009, reaching a historical high of nearly R$30.0 billion in non-recourse financing granted during the year. This development was once again supported by the Growth Acceleration Program, or "PAC" *Programa de Aceleração do Crescimento*, a highly promoted government initiative, and Petrobras' infrastructure demands for the Pre-Salt. We have participated in innovative transactions in the power, logistics and oil and gas sectors and we believe we are well positioned in 2010 to participate in the advisory, structuring and financing of infrastructure projects. The Santander Group is among the main project finance participants globally and we are one of the market leaders in Brazil, as demonstrated by our consistently high rankings from ANBIMA in recent years, including first place in 2005, eighth in 2006, second in 2007 and first again in 2008. Additionally, in 2009, we received the award of Best Project Finance Deal from Latin Finance for the Norbe VIII&IX financing for Petrobras, Brazil's national oil company.

Significant transactions in the past year included (1) advising on and closing the structuring of a financing package of R$8.7 billion for the AHE Santo Antônio, Rio Madeira, of which R$3.2 billion will come from commercial banks; (2) closing a R$1.0 billion 18-month bridge loan in an innovative non-recourse structure for Concessionaria Rota das Bandeiras – responsible for the Dom Pedro I toll road concession, and (3) advising and structuring a U.S.$1.34 billion financing package for Norbes VIII and IX Drilling Rigs, owned by Odebrecht Óleo & Gas.

Debt Capital Markets. We play an important role in both local Brazilian and international debt capital markets for Brazilian issuers. In the local debt market, we are one of the leading banks, ranking fourth in 2009 in terms of fixed income origination, according to ANBIMA. Our main transactions during 2009 included a debentures issue for Tractebel Energia S.A., Elektro Eletricidade e Serviços S.A., Companhia Energética do Ceará – COELCE and Ecorodovias Concessões e Serviços S.A. and promissory notes issues for Elektro Eletricidade e Serviços S.A., Companhia Energética do Ceará – COELCE, and Concessionária Auto Raposo Tavares S.A. In 2008, we acted as lead manager in the offering of senior and mezzanine shares of Chemical III, a receivables investment fund, as well as lead arranger in the financing for the acquisition of Empresa de Transmissão de Energia do Oeste through the issuance of promissory notes by Terna Participações S.A., one of the largest electricity transmission groups in Brazil. In the international debt capital markets, we were ranked as the leading underwriter with respect to Brazilian issuers in the corporate bond league table for 2009, according to data from Bloomberg. We have led the market with the most significant international debt offerings in 2009, including the largest U.S. dollar bond deal from a Brazilian issuer - the U.S.$4.0 billion dual-tranche transaction for Petrobras, and benchmark size 10-year transactions for Telemar Norte Leste S.A., Vale S.A., Votorantim Participações S.A., Gerdau S.A. and Construtora Norberto Odebrecht, as well as 5-year bonds for Cosan Combustíveis e Lubrificantes S.A. and for Construtora Norberto Odebrecht. In 2008, Santander Brasil and Banco Real managed international bond offerings for Gerdau, Braskem, Banco Sofisa, Banco Daycoval and Banco Fibra.

Syndicated Loans and Acquisition Finance. We are positioned as one of the leading banks in the syndicated loan market in Latin America, and were awarded the “2009 Best Latin America Loan House” by Latin Finance magazine. Over the last few years, we structured several important transactions including (1) U.S.$178 million acquisition of Termonorte by Termogás (2) the U.S.$725 million energy project take-out financing for the acquisition of Ipiranga Petroquímica by Braskem (2008), (3) the U.S.$1 billion financing for the acquisition of Quanex Corporation by Gerdau (2008), and (4) the U.S.$18 billion financing for the acquisition of Inco by Companhia Vale do Rio Doce (CVRD), which at that time was the largest syndicated loan to have been executed in Latin America (2006).

Credit Sales & Trading. Our Credit Sales & Trading team is responsible for the underwriting and distribution of credit markets products in the Brazilian market. Aside from the syndications flow, the team plays an active role in secondary trading, both fixed-income instruments and loans, as well as in the development of structured products. Recent deals include lead-manager roles in project finance syndications such as a R$540.0 million bridge financing to Isolux S.A., R$400 million BNDES guarantees to OHL and R$350 million BNDES/BNB guarantees to Bons Ventos, as well as bookrunner roles in syndicated loans such as a U.S.$500 million revolving facility for Odebrecht Overseas. In the local fixed income market, we underwrote and placed among institutional investors the deals mentioned in “—Debt Capital Markets.”

Corporate Finance

Our corporate finance activities include mergers and acquisitions, asset and capital structuring and equity investments.

Mergers and Acquisitions. Our corporate finance services are focused on developing customized solutions for customers in the mergers and acquisitions area. The transactions carried out by our mergers and acquisitions team include advisory services on acquisitions, sales, mergers, restructurings and project funding in a range of sectors, such as construction, agriculture, retail, telecommunications, energy, metals and minerals and financial services. The role we perform in merger and acquisition transactions usually involves a complete package of financial services, including the financing of acquisitions, structuring of all transactions and settlement of the financing. In 2009, we acted as financial advisor in several important transactions, including the merger of Bertin S.A. and JBS S.A. to create the largest animal protein producer in the world; the acquisition of 100% of Intelig

Telecomunicações Ltda., through a merger between Tim Part S.A. and Holdco Part Ltda.; the acquisition, by Empresas CMPC S.A., of the Guaíba Unit from Fibria Celulose S.A. and the sale of a stake in SantelisaVale to Louis Dreyfus Commodities. According to the rankings published by Bloomberg, in 2009 we were ranked first in financial advisory services in terms of volume of announced merger and acquisition transactions in Brazil, with approximately U.S.$20.4 billion in 18 announced transactions.

Asset and Capital Structuring. This area is responsible for the development of structures for financing assets, business promotion and optimization of capital investments. The principal activities involve capital and asset structuring, seed investment and carbon finance.

Equity Investments. We have recently started to prospect businesses through our equity investments area for potential future private equity investments to be carried out by us.

Equities

Equity Capital Markets (ECM). We had a very strong year in 2009 where we acted as lead bookrunner and/or joint bookrunner in many major equity offerings in Brazil, consolidating our leadership in ECM transactions. According to Bloomberg and Thomson Reuters, in 2009 we were the leading bank in terms of volume for equity capital market transactions in Brazil and Latin America. We participated as lead bookrunner in Banco Santander Brasil's U.S.$7.5 billion initial public offering, the world's largest IPO in 2009 and Brazil's largest transaction to date, and in Direcional Engenharia's initial public offering, and as joint bookrunner, in the initial public offerings of Cetip S.A. and Companhia Brasileira de Meios de Pagamento – Visanet, and in the follow-on offerings of Rossi Residencial S.A., Iguatemi Empresa de Shopping Centers S.A., Cyrela Brazil Realty S.A., MRV Engenharia e Participações S.A., BRMalls Participações S.A., Anhanguera Educacional Participações S.A., Marfrig Alimentos S.A., and Brasil Foods S.A.

Equity Derivatives. We provide an array of services through our Equity Derivatives desk. Our team is comprised of Structuring, Sales and Trading. Equity derivatives products are designed to meet the requirements from our corporate, institutional, high net-worth individual or retail customers. Our offering comprises Brazilian indices and stocks, international indices, stocks, baskets and hybrid baskets and commodities. Our product range includes listed options, delta 1 structures, OTC trades, exotic options and structured notes. These products are used for hedging, leverage, financing and investment products.

Exchange Traded Derivatives. We are a full service execution and clearing provider of futures and options. We assist corporations and financial institutions in trading futures in Brazil or in other parts of the world. Through our fully integrated platform, we provide execution and clearing services on a global basis. Our specialists help clients achieve their business objectives when trading listed derivatives. Santander's customers are enabled to trade through direct market access (DMA) solutions or other third party order routing providers. We also have a dedicated structure to provide our customers tailor-made solutions to suit their specific needs.

Global Custody & Securities Services. We provide specialized fiduciary services in Brazil to global and domestic investors, including global custodians, investment banks, pension funds, insurance companies, broker dealers, asset managers and private equity firms. Our range of products and services includes custody and clearing services (for equity, fixed income and derivatives products), local representation for foreign investors, proxy voting, securities lending, risk analysis services, transfer agent services, shareholder services, trustee services (Corporate Trust Services and Escrow Accounts), as well as local administration of mutual funds, trade receivables (FIDC) and private equity funds (FIP).

Cash Equities. We provide cash equities services to foreign and local investors and institutions mainly through our brokerage house, Santander Corretora. Our cash equities sales trading team is recognized within the industry for its quality of execution, the strength of its relationship with clients and the quality of its research on the Brazilian and Latin America markets. Our brokerage house serves individual investors trading at BM&FBOVESPA. It provides differentiated service through specialist managers. Through our Equity Floors (Salas de Ações), installed in 90 Santander Brasil branches, investors are able to manage their portfolios on-line, with access to both historical price information and the most recent industry and company analyst reports, including those prepared by our analysts and tailored to the needs of our clients. We typically earn either a market rate brokerage commission for stock exchange transactions or, in the case of negotiated transactions or over-the-counter transactions, a privately negotiated brokerage commission. As of December 31, 2009, we had more than 200 brokers and sales personnel, most of them located on our Equity Floors, to assist our customers. We also provide settlement services, securities services, program trading and DMA (Direct Market Access).

Equity Research. Our equity research team covers nearly 90 Brazilian companies from 18 different sectors, comprising a major part of the Ibovespa. Our team is part of a Latin American equity research group. Our research services include the publication of research reports, conferences ("Latam Conference" in Cancun in January and "Brazil Conference" in Guaruja, São Paulo, in August), weekly events ("*Quinta-feira no Santander*"), analysts' road shows, companies' non-deal road shows and investors trips (specific agendas to visit companies provided to small groups of institutional investors). Our equity research team was ranked third in 2008 among equity research teams (up from eighth in 2007), according to the 2008 Institutional Investor survey.

Rates

Our rates business offers a variety of treasury products to customers, including institutional investors, corporate clients and individuals. We provide sophisticated and innovative derivative products to help our customers manage market risk exposure to foreign exchange rates and interest rates. We believe we have an effective client coverage model based on dedicated sales teams for each client segment that allows us to maintain specialists committed to providing for the specific needs of our individual clients. In addition, we have structuring and product development teams that work to maintain a cutting edge portfolio of innovative client solutions. The global network of the Santander Group, with its strong presence in Europe and Latin America, give us the ability to offer a wide range of international products as an integrated service for our local customers. Furthermore, through a new project we launched known as Santander Global Connect following the Santander Group's success with this product in other markets, such as Spain and Portugal, we offer treasury products as a standardized solution to our customers, providing hedge and yield enhancement, to middle and retail market companies and to individuals. We have implemented extensive suitability processes designed to ensure customers understand and accept the risks involved in the derivatives market.

Our foreign exchange sales force is strategically located within our main office in São Paulo and throughout eleven regional offices, primarily located in South and Southeast Brazil.

Market Making

The market making area is responsible for the pricing of client deals originated by the sales forces from our corporate, institutional, private banking and retail operations. Risks coming from those deals are covered in the market, through portfolio dynamic hedging activity managed by a specialized and dedicated team.

Our presence in the market through market-making activities allows us to offer a broad variety of products and structures to our clients, as well as creates synergies with the sales force and a better knowledge of their needs. These aspects have led to a significant presence on rates products, more competitive prices for our clients and sustainable results for the organization.

The market making desk must comply with risk control policies established by our senior management and also with those applied worldwide by the Santander Group. All positions and processes are strictly monitored and controlled by specialized market and operational risk teams and finance and compliance departments.

Proprietary Trading

The proprietary trading area is responsible for the management of the Bank's proprietary books and the establishment of a relevant presence as a liquidity provider across all local markets. In the management of the Bank's books, we seek to maintain recurrent results for each single individual book with the main objective of preserving capital. The decision-making process is based on fundamental aspects of each market, supported by technical views. The strict observance of these principles has allowed this activity to present sustainable results for the organization.

The proprietary trading desks must comply with risk control policies established by our senior management and also with those applied worldwide by the Santander Group. All positions and processes are strictly monitored and controlled by specialized market and operational risk teams and finance and compliance departments. Proper risks management for each financial market area and sustainable initiatives, such as social, environmental and corporate governance criteria are also part of our proprietary trading activity.

Correspondent Banking

Our international correspondent banking operations include trade financing and funding from correspondent banks. Our trade financing activities consist of import and export financing. Import financing generally involves a loan or a letter of credit in the relevant foreign currency of the commercial transaction. Export financing generally involves pre-export financing, and consists of an advance to an exporter in foreign currency. Both export and import financings are extended in U.S. dollars or the relevant foreign currency of the commercial transaction.

We apply the same credit approval process and control policies to our trade financings that we apply to the rest of our lending operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk."

Asset Management and Insurance

Asset Management

Through Santander Asset Management, we manage and administer third-party funds on a discretionary and non-discretionary basis, by means of mutual funds, pension funds and individual and corporate investment portfolios. At December 31, 2009, we had R$108.3 billion in assets under management and over 700,000 clients. According to data published by ANBIMA in December 2009**,** Santander Asset Management was the fourth largest asset manager in Brazil in terms of assets under management with R$108.3 billion in assets under management.

Our fund offering includes fixed income, money market, equity and multi-market funds (i.e. funds that do not focus on a specific type of risk and, therefore, offer higher diversification).

We maintain solid practices which value a sound performance management, while at the same time placing a strong focus on risk management and internal controls.

We introduced the first socially responsible fund in Latin America — the Ethical Fund, and in 2008 we became signatories to the Principles for Responsible Investment, an initiative taken by the United Nations to encourage financial and capital markets to search for sustainable development projects through the use of social, environmental and corporate governance metrics in the investment decisions.

Insurance

We offer to our retail and SME customers various insurance products, including life and personal injury insurance, homeowner's insurance, credit life insurance, credit card loss and theft insurance and private retirement plans, which are considered life insurance for regulatory purposes, although their substance is that of a private retirement plan providing annuity benefits and capitalization products (savings account products generally requiring that a customer deposit a fixed sum with us). We carry out our insurance operations through three insurance companies and two capitalization companies.

Insurance Companies. Santander Seguros, provides life, personal injury and credit life insurance products and private retirement plan products. Santander Brasil Seguros provides homeowner's, credit card loss and theft insurance products.

Capitalization Companies

Through Santander Capitalização, we offer bancassurance products, with low risk product types and low complexity which generally offer favorable margins. For capitalization products and private retirement plans, we offer products directed toward various risk profiles depending on our various customers' needs. We have a strong presence in the insurance market.

On March 9, 2009, we acquired the remaining 50.0% ownership interest in Real Tokio Marine Vida e Previdência (which name has been changed to Real Seguros Vida e Previdência S.A., subject to SUSEP's approval) for R$678 million through the exercise of an option we had acquired in connection with our acquisition of Banco Real. Real Tokio Marine Vida e Previdência was a joint venture created in 2005 between Banco Real and the Japanese Tokio Marine. As part of the reorganization of our insurance business in September 30, 2009 we merged the shares of Real Seguros Vida e Previdência into Santander Seguros S.A. and the shares of Real Capitalização into Santander Capitalização. These transactions remain subject to approval by SUSEP. The acquisition has expanded our activities in the Brazilian insurance and private retirement sectors.

The following table shows the breakdown of our market share in insurance products as of December 31, 2009.

	For the Year Ended December 31, 2009(1)
	(In percentages)
Life insurance	5.7%
Personal injury insurance	7.5%
Credit life insurance	19.8%
Residential insurance	5.5%
Capitalization	9.0%
Private retirement	10.6%

Source: SUSEP and FenaPrevi.

(1) Includes 100% results of Real Seguros Vida e Previdência for the entire period.

Our acquisition of Banco Real was complementary to our pre-existing insurance business to the extent that Santander had higher overall penetration in insurance products while Banco Real has had historically higher retention rates. In addition, Banco Real had better rates in providing third party private retirement plans. Banco Real did not have as extensive a number of life insurance products and customers in such product offerings as did Santander Brasil.

We have implemented a corporate restructuring in order to consolidate all of our Brazilian insurance operations into Santander Brasil. This included the acquisition on August 14, 2009 of certain Brazilian asset management and insurance businesses that were previously beneficially owned by Santander Spain and the restructuring of Santander Seguros and Santander Brasil Seguros S.A., both insurance providers of the Santander Brasil Group, Santander Capitalização, Real Capitalização and Real Seguros Vida e Previdência S.A. We completed the corporate restructuring on August 31, 2009.

Including the results of Real Seguros Vida e Previdência, for the entire period, at December 31, 2009, we had R$17 billion in provisions and had generated R$6.8 billion of gross written premiums, including R$1.5 billion for insurance products, R$4.4 billion for pension products and R$0.9 billion "Capitalização" products (included Real Capitalização S.A) in the year ended December 31, 2009. We are ranked fourth in gross written premiums for the insurance products we distribute according to SUSEP.

Insurance Brokerage Services

We distribute insurance products from some of Brazil's largest public and private insurance companies. We concentrate on the sale of products issued by Santander Seguros or Santander Brasil Seguros S.A., which represented almost 82.0% of our insurance premiums in the year ended December 31, 2009. The products we distribute as part of our insurance brokerage services include life, automobile, property and casualty, industrial equipment and crop insurance. We focus on simple standardized banking product-related insurance mainly intended for the retail business. We cross-sell such insurance products, for example credit life insurance, with our banking products. The products are sold through our distribution network and we receive a service fee from the insurance providers based on the insurance sales. All risks are assumed by, and all premiums are payable to, the relevant third-party insurance providers (including the Santander Brasil Group insurance providers).

As of December 31, 2009, the breakdown of insurance premiums in connection with insurance distributed by Santander Brasil Group insurance companies was as follows: Santander Seguros (life) 78.0%, Santander Brasil (personal property) 12.0% and third-party companies (automobile, property) 10.0%. The breakdown for insurance premiums distributed by Banco Real insurance companies was as follows: Real Seguros Vida e Previdência 67.0%, and third-party companies 33.0%. We believe that the consolidation of the insurance business will maximize our participation in the insurance brokerage services market. We intend to maintain our focus on insurance distribution through bank branches while capitalizing on our ability to grow business operations in various offerings, including pensions, life, credit life, accidents, homeowners and loss and theft of credit cards.

Distribution Network

Our distribution network provides integrated financial services and products to our customers through a variety of channels, including branches and on-site service units (*postos de atendimento bancário* or PABs) and complementary distribution channels such as ATMs, call centers and other alternative direct sales distribution channels like Internet banking. These distribution channels are concentrated in the South and Southeast, Brazil's wealthiest regions measured in terms of GDP per capita (representing approximately 73.0% of Brazil's GDP in 2007). As a result of our acquisition of Banco Real, we expanded our distribution network.

The following table presents our principal outlets at December 31, 2009.

	At December 31, 2009
Branches	2,091
PABs (on-site service units)	1,502
ATMs	18,094

Branch Network

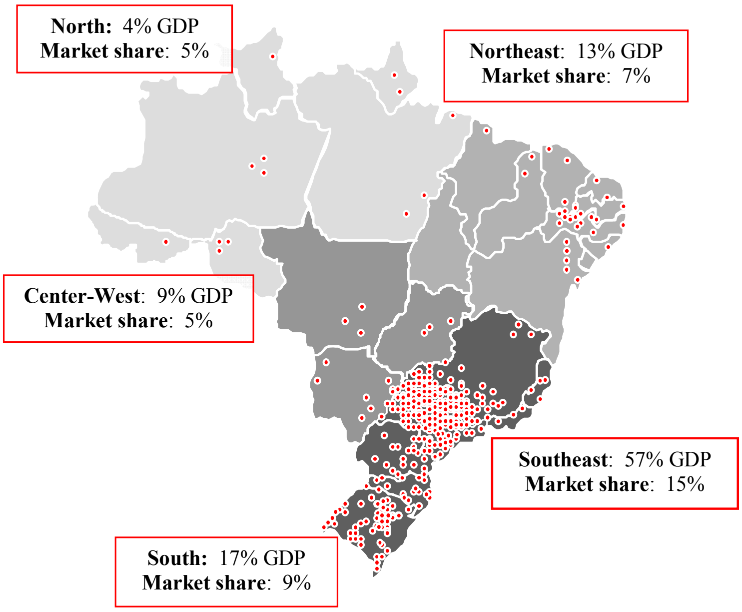
Our branch network offers all of our products and services to our customers. In 2008, we opened nearly 50 new branches and have plans to open an additional 600 new branches through 2013. In 2007, we closed four branches and Banco Real opened 47 branches.

The table below shows the number of our branches across Brazil's regions at the dates indicated.

	At December 31,			Change, At December 31, 2009 vs. December 31, 2008	
	2009	2008	2007(1)	#	%
Central West	72	71	13	1	1.4%
Northeast	176	174	11	2	1.1%
North	31	30	3	1	3.3%
Southeast	1533	1,530	726	3	0.2%
South	279	278	151	1	0.4%
Total	**2,091**	**2,083**	**904**	**8**	**0.4%**

(1) Includes Banco Real branches.

The following map shows the geographic distribution of our branch network, each region's share of 2006 GDP and our current market share, according to the Central Bank. Market share is calculated by dividing the number of our branches in the region by the number of branches for all principal banks in such region at December 31, 2009.



Source for GDP: IBGE.

PABs — On-Site Service Units

We offer daily banking services to our SME and other corporate customers and their employees through our on-site service units located on their premises as well as in hospitals and universities. Our on-site service units are generally the exclusive point of sale at the premises. We believe that the presence of on-site service units at the offices of our customers strengthens our relationships with them and builds customer loyalty with those individuals who benefit from the convenience of conducting their banking transactions at their workplace. We believe that on-site service units are an important, low-cost and low-risk way of expanding and maintaining our customer base.

The table below shows the number of our on-site service units across Brazil's regions at the dates indicated.

	At December 31,			Change, December 31, 2009 vs. December 31, 2008	
	2009	**2008**	**2007**	**#**	**%**
Central West	100	101	97	(1)	(1)%
Northeast	155	159	155	(4)	(3)%
North	59	62	63	(3)	(5)%
Southeast	1,013	1,024	1,047	(11)	(1)%
South	175	174	175	1	1%
Total	**1,502**	**1,520**	**1,537**	**(18)**	**(1)%**

Complementary Distribution Channels

We also distribute our products and services through complementary distribution channels, which we believe contribute significantly to an increase in product sales and banking transactions. These channels consist of ATMs, Internet banking and call centers. These distribution channels provide significant amount of information to our customers, which is an important means of direct sales. Because of their low cost and large attendance capacity, we believe that complementary distribution channels are an important way to reach certain customers, in particular those in the low income class where we are able to have a more effective relationship with a broad customer base.

ATMs

We operate an extensive network of over 18,000 ATMs, including those located in our branches and on-site service units. In addition, our customers have access to the "*Banco 24 Horas*" network of approximately six million ATMs of over 40 participating banks located throughout Brazil, through which they may access their accounts and conduct banking transactions, typically paying a per-transaction fee. On February 11, 2010, we executed a memorandum of understanding together with Banco do Brasil S.A. and Banco Bradesco S.A. with the aim of consolidating the operations of our outdoor ATMs. The memorandum of understanding is not binding and the banks intend to conclude the transaction within approximately five months from the execution date of the memorandum of understanding.

The following table shows the number of our ATM machines across Brazil's regions at the dates indicated.

	At December 31,			Change, December 31, 2009 vs. December 31, 2008	
	2009	**2008**	**2007(1)**	**#**	**%**
Central West	714	699	22	15	2.1%
Northeast	1,647	1,599	76	48	3.0%
North	390	394	30	(4)	(1.0)%
Southeast	13,336	13,431	5,844	(95)	(0.7)%
South	2,041	1,997	243	44	2.2%

(1) Does not include Banco Real.

Individuals and SMEs can also access their accounts through the Internet or by telephone to conduct banking transactions at their convenience, such as obtaining account information, conducting transactions, contracting loans, making payments or contacting a bank representative.

Call Centers

Our call centers can be used by customers to make inquiries, execute payment transactions or apply for products and services, such as personal loans. A portion of our call center personnel is dedicated to contacting current account holders to offer them additional products and services, in particular insurance and credit cards. Our call centers also have a retention unit that handles customer requests for the cancellation of products or services.

The following table presents summarized operating statistics for our call centers.

	At December 31,			Change, December 31, 2009 vs. December 31, 2008	
	2009	**2008**	**2007**	**#**	**%**
Number of individual customers (in thousands)	2,216	2,312	2,039	(96)	(4.2)%
PAS(1)	3,976	3,684	3,154	292	7.9%
Headcount	6,516	6,206	5,347	310	5.0%
Percentage of using customers per month	27%	28%	27%		

(1) Work stations set up for call center activities.

Internet Banking

We view Internet banking as a key instrument for offering additional products to our customers. The following table presents summarized operating statistics for our Internet banking.

	At December 31,			Change, December 31, 2009 vs. December 31, 2008	
	2009	2008	2007	#	%
Number of individual customers (in thousand)	1,790	1,731	1,486	59	3.4%
Percentage of using customers	22%	21%	20%		

Funding

Our principal sources of funding are deposits. Customer deposits typically represent a large portion of our funding base because of our ability to attract deposits from customers through our extensive retail, wholesale and corporate network. Since we are primarily a commercial bank, customer deposits constitute the main source of liquidity in our financing structure. These deposits, combined with capital and other similar instruments, enable us to cover most of our liquidity requirements. Our control and management functions involve planning our funding requirements, structuring the sources of financing to achieve optimal diversification in terms of maturities, instruments and markets and setting forth contingency plans. In order to increase liquidity in the Brazilian market, we use deposits in the local market as an instrument of liquidity and do not rely significantly on international funding. Additionally, legal reserve requirements consume a significant amount of funding in Brazil. In order to improve the liquidity of the Brazilian financial market, the government recently created the Financial Note instrument (*Letra Financeira*) through Provisional Measure No. 472 of December 15, 2009. The Financial Note instrument is a new funding alternative available to banks that can be characterized as subordinated debt or a hybrid instrument of capital for purposes of capital adequacy rules. Pursuant to Resolution No. 3,836 of February 25, 2010, its minimum term must be 24 months and it must be issued for a minimum amount of R$300,000. For a further discussion of our funding, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Funding."

Technology

In order to serve our customers effectively, improve our profitability and grow our business, we continuously invest in new technology and renewal of equipment and infrastructure. We believe that proper management of technology is key to the efficient management of our business. Our technology architecture focuses on our customers and supports our business model. We operate a modern global technology platform that is interconnected with the platform of the Santander Group, which allows us to serve our customers on a global scale, under an architecture that is uniquely customer-centered. See "Related Party Transactions—Information Technology Platform."

Our operations and information technology organization are focused on three pillars:

- integration of Banco Real and Santander Brasil;
- building the most efficient bank in Brazil by 2011, following the completion of the integration process; and
- achieving quality excellence in services by supporting client business needs.

Our most important current technology project is the convergence of our and Banco Real's systems into a single technological and operational platform. The integration of operational processes and information technology has already begun; client migration onto single platform is expected to start in 2010. We believe that the new single platform will give us a competitive advantage, as we will have the most up-to-date system architecture combined with a broad set of functionalities inherited from Banco Real. In addition, to support our systems, we are investing in a robust and scalable infrastructure.

Our infrastructure environment can be divided into six groups:

- *Data centers*. Our data centers are presently organized in three locations in São Paulo. Following the integration, data centers will be in two locations. Our security environment entails an authentication and authorization system based on mainframe infrastructure, a secure internal network protected by a complex set of fire walls, continuous monitoring of incoming traffic and protection of work stations with anti-virus software.

- *Data communications*. We are in the process of upgrading our data communications infrastructure, with the goal of achieving higher broadband speed.

- *Call centers*. In addition to customer service, our call centers perform recovery and sales activities. We expect the ongoing integration process to rationalize call center costs and enhance client relationships.

- *Branches/ATMs*. We expect a full integration of our and Banco Real branches and ATMs by 2010. Currently, a partial integration allows customers of each bank to carry out main financial transactions (such as obtaining statements, money withdrawals and payments) in all branches and ATMs, regardless of brand.

- *Data processing environment*. Our mainframe has three main objectives: support system integration, create integration test environment and support business growth. To increase efficiencies, we are working on consolidating servers (with a planned reduction from approximately 4,000 to approximately 1,500 servers) and decommissioning of certain platforms.

- *End-user systems*. We are working on updating our end-user systems, with the goal of standardizing hardware and operating systems at all workstations at our headquarters and across branches.

This set of systems and environments is managed and supported by specialized internal group companies. This model enables us to capture our global scale and benefit from outsourcing (including consolidation, shared capability, scale, exchange of best practices and simplified governance), without the loss-of-control downside of externalizing core activities.

We expect that our total information technology investment expenditures for 2010 will be approximately R$430 million. Our expenditures in 2008 and in year ended December 31, 2009 were approximately R$400 million and R$473 million, respectively.

Marketing

In 2009, we maintained our aggressive marketing strategy and brand exposure, showing that by combining the best that Santander and Banco Real have to offer, we are building the best and most efficient bank in Brazil. We have concentrated our efforts on communicating the launch of products and services offered simultaneously to clients of both bank networks. In addition to our clients, we strive to familiarize our staff, suppliers and the market in general with the integration process.

Some of the most noteworthy products and services we now offer are the *Novo Santander Master* and *Real Master ainda melhor* overdraft facilities, the Van Gogh Santander services, flex cards and housing credit. We also implemented marketing efforts in operating sectors such as Aymoré and services dedicated to corporate clients.

We published our marketing initiatives in both the printed and electronic media. We post videos and lectures on YouTube, in addition to television commercials. This experience has enabled us to assess the impact and repercussion of our marketing campaigns interactively with internet users. We also posted photos and images on the Flickr network.

We made our official debut on Twitter on December 2009. By using this global microblogging service, we intend to interact more closely with our clients, offering relevant information on sustainability, culture and financial guidance.

Until the integration of the Santander and Banco Real brand names, which we expect will be completed by the end of 2010, we will continue to inform our clients and the general public of the benefits of the integration.

In 2009, we sponsored the Vodafone McLaren Mercedes Formula 1 team for the third consecutive year. We are also the official sponsor of the Brazilian Formula 1 Grand Prix and the *Copa Libertadores da América*, South America's most important club soccer tournament, for the second consecutive year, branded *Copa Santander Libertadores*.

Competition

The Brazilian financial market is highly competitive, and in 2008 and the first half of 2009 experienced significant consolidation, which included the mergers of some of the largest banks in the industry, such as Santander Brasil with Banco Real, Itaú with Unibanco and Banco do Brasil with Nossa Caixa and Banco Votorantim.

In September 2006, the CMN enacted regulations to increase competition among Brazilian commercial banks. As a result of these new regulations: (1) banks are prohibited from charging their customers fees for services in connection with salary, pension and other income payment accounts that such customers are required to maintain with a bank that has been designated by such customer's employer, pension fund or other source of income; (2) financial institutions and leasing companies must accept the prepayment of loans and leasing transactions by customers who have elected to refinance such debt with other financial institutions; (3) customers will have the right to request that a financial institution disclose their credit history to another financial institution; and (4) changes were implemented in the regulation of the Credit Guarantee Fund (*Fundo Garantidor de Crédito*, or "FGC"), which is a fund created to guarantee payment of funds deposited with financial institutions in the event of intervention, administrative liquidation or other state of insolvency, thereby providing depositors with greater assurance that their deposits will be safeguarded. These regulations are designed to increase competition among financial institutions by creating mechanisms that will make it easier for customers to open new accounts and transfer their funds from one institution to another.

As of September 30, 2009, according to the Central Bank, the four largest banks and financial conglomerates had an approximately 58.0% market share in terms of credit volume and an approximately 67.0% market share in terms of deposits within the overall finance industry in Brazil. At such date, the largest bank in Brazil was the public financial institution formed by the merger of Banco do Brasil with Nossa Caixa, with a 21.0% market share in terms of credit volume and a 25.0% market share in terms of deposits, according to the Central Bank.

The following table sets forth market share information as of the date presented for the other four largest financial institutions.

	At September 30, 2009			
	Santander Brasil	Bradesco	Itaú Unibanco	Banco do Brasil
	(In percentages)			
Total assets	9.2	12.1	16.7	18.8
Total loans	11.2	15.3	19.8	22.2
Total deposits	10.0	14.8	16.9	25.8
Demand	9.1	20.3	16.9	32.6
Saving	7.7	14.2	15.8	24.2
Time	11.1	13.9	17.7	25.1
Mutual funds	7.5	16.6	18.5	21.1
Retail	12.4	14.6	17.8	22.2

Source: Central Bank; reported and presented in accordance with Brazilian GAAP.

Banco do Brasil is active in all business areas and plays an important role in the market due to its captive deposit products market and strong presence in public organizations, and is consequently one of our primary competitors. In addition, our other primary competitors are large privately-owned domestic banks, such as Bradesco and the financial institution formed by the merger between Itaú and Unibanco. These banks have a strong brand name and distribution capacity throughout the country. Our acquisition of Banco Real has allowed us to obtain a critical mass and better compete with these large public and private financial institutions.

Due to political pressures, the public banks in Brazil have since the beginning of 2009 been aggressively increasing loan volumes at spreads lower than those of private banks. As a consequence, the market share of public banks has increased relative to the market share of private banks, with a 510 basis point increase in the market share of public banks from 36.3% at December 31, 2008 to 41.4% at December 31, 2009.

We also face competition from local and regional banks in relation to certain products in the Commercial Banking segment in which such banks have specialized. In the Global Wholesale Banking segment, our competitors include global banks focused on investment banking, such as Credit Suisse, Bank of America/Merrill Lynch, UBS Pactual, Goldman Sachs and JP Morgan, which have played an important role in the Brazilian wholesale market as a result of their expertise in complex structured transactions and their distribution networks in Europe, North America and Asia.

Sustainability

We believe that responsible corporate and individual actions are crucial for sustainable development. We focus our efforts on integrating social and environmental dimensions in our business decisions and governance and encourage our staff, clients, suppliers and co-partners in these initiatives.

Loans and financing

Our risk analysis process takes into consideration social and environmental aspects helping us manage our risk and generate new business opportunities. As an example, in 2009 our microfinance business benefited 170,000 small entrepreneurs from low-income communities.

We also finance renewable energy, energy efficiency, clean energy production and corporate governance projects. In 2009, we invested R$42.0 million in these initiatives.

Social projects and engagement

Projeto Escola Brasil is our corporate volunteers program. More than 1,800 employees are organized in 214 groups to improve the educational quality of elementary public schools. Another important social project sponsored by Santander is *Amigo de Valor*, which facilitates the donation of part of the income tax to the Municipal Funds for Children and Adolescents. In 2009, 45.0% of our employees (approximately 24,000 employees) supported the program raising R$6.9 million.

Ecoeficiency

Our concern for the environment also means that we are continually looking for efficient initiatives. In 2009, through the program *Papa Pilhas*, 152 tons of batteries, collected in branches and administrative buildings were recycled. Our new headquarters, received on December 2009 both LEED Core & Shell certification and ISO 14001, attesting our commitment to environmental issues.

Sharing knowledge

In 2009, we had 1.4 million accesses to our website (www.bancoreal.com.br/sustainability) and conducted 39 events (including training sessions and lectures) with an audience of 1,870 people from 858 different organizations, including: customers, employees and suppliers.

Also in the promotion of education, we must highlight the *Santander Universidades* (Santander Universities) initiative, one of the largest programs for the support of higher education in the world, and *Universia*, a network that gathers information about universities, scholarships and career opportunities worldwide.

Intellectual Property

In Brazil, ownership of trademarks can be acquired only through a validly approved registration with the National Institute of Intellectual Property (*Instituto Nacional de Propriedade Industrial* or "INPI"), the agency responsible for registering trademarks, patents and designs in Brazil. After registration, the owner has exclusive use of the trademark throughout Brazil for a ten-year period that can be successively renewed for equal periods.

The major trademarks used by Santander Brasil, including, among others, the "Santander" and "Banco Santander" brands, are owned by the Santander Group and one of Santander Group's affiliated granted us a license to use such brands. All material trademarks for our business are registered or have been submitted to INPI by the Santander Group or Santander Brasil. We own the principal domain names used in our business which include: www.santanderbrasil.com.br, www.bancosantander.com.br, www.bsantander.com.br, www.bancosantanderlight.com.br, www.corretorasantander.com.br and www.realsantander.com.br.

Employees

At December 31, 2009, we had 51,241 full-time, permanent employees. The following table presents the breakdown of our full-time, permanent employees at the date indicated.

	At December 31, 2009
Branch employees	32,938
Administration employees	18,303
Total	**51,241**

The Brazilian Banking Employees' Union represents most of our employees. In the event of a potential conflict with our banking employees and/or the banking union, negotiations are conducted by the FENABAN. Each year, generally in September, all banks have a collective negotiation period in which they revise salary structures. During this period, the Banking Employees' Union negotiates bank employees' salaries within the scope of the Brazilian Banking Collective Agreement with the FENABAN. Since the acquisition of our predecessor banks by our indirect shareholder Santander Spain, we have not suffered significant losses through strikes and our management believes it has good relations with our employees.

We have a profit-sharing plan with our employees based on predetermined annual performance targets for our operating and financial results. As a result, if we meet or exceed certain goals, our employees are able to share in our financial performance. We believe our levels of remuneration, benefits (including our profit-sharing program), working conditions and other allowances are generally competitive with those offered in Brazil by other large banks and enterprises.

We have a policy of providing continuous training to our employees in order to enable them to improve their skills and create a more efficient team, committed to the values of the group. In 2004, we established a business school to provide training in the following areas: professional development, employee integration in the work environment and training and development of service management, business and leadership skills.

We offer our employees certain defined contribution pension plans into which our employees may elect to contribute a portion of their salary and into which we may also make contributions on behalf of such employees. These plans provide retirement, disability and death benefits. Holandaprevi is the only pension plan currently open for new enrollment. Most of our current employees are enrolled with Holandaprevi. At December 31, 2009, 39,689 participants were enrolled in this plan, for a total amount under management of approximately R$1.2 billion. Our contribution amounts in 2008 were R$101.6 million.

Properties

The following table sets forth selected information for our principal properties.

	At December 31, 2009	
	Number	Leased/Owned
Branches	2,094	1,572 leased / 522 owned
Commercial sites (consumer finance)	72	72 leased
Administrative buildings	15	7 leased / 8 owned

Our new headquarters is located in Torre São Paulo. Relocation began in October 2009; the transition period is expected to last approximately six months. We acquired this new building in August 2008 for R$1.1 billion. It encompasses a total area of 55,613.43 square feet. In 2009, we have budgeted R$54 million in capital expenditures for our properties, principally related to our move to our new headquarters.'

On March 4, 2010 we entered into a purchase agreement with Fundo de Investimento Imobiliário Prime Portfólio, for the sale of 60.0% of the building located at Avenida Paulista 1374, São Paulo, the former headquarters of Banco Real. On March 5, 2010, we entered into a purchase agreement with Top Center Empreendimentos e Participações Ltda, for the financing of 40.0% of the building, for the total amount of R$270.0 million.

Insurance

We have insurance in effect to cover the following risks: comprehensive liability, subject to a maximum limit of R$5 million; fraud, subject to a maximum limit of R$190 million; comprehensive property insurance, subject to a maximum limit of R$465 million; thirty party liability for vehicles (R$1 million) and two aircrafts (U.S.$10.5 million for Hull and U.S.$20 million for Third Party Liability).

Legal Proceedings

We are party to lawsuits and administrative proceedings incidental to the normal course of our business. The main categories of lawsuits and administrative proceedings to which we are subject include:

- administrative and judicial actions relating to taxes;
- indemnification suits for material and/or moral damage related to consumer rights, in particular with respect to credit cards, checking accounts, collection and loan disputes;
- suits involving dispute of contractual clauses of existing agreements;
- civil suits, including from depositors relating to the alleged effects of our implementation of various government economic plans (seeking differences for monetary adjustments on remuneration of several deposits, such as saving accounts and judicial deposits) and consumer law (i.e., breach of contract and foreign currency indexation, including administrative proceedings) and to the privatization of Banespa;
- class actions involving agreements and settlement of debts with the public sector; and
- suits brought by employees, former employees and unions relating to alleged labor rights violations.

The provisions are recorded for administrative and judicial proceedings in which we assess the chances of loss to be probable. Overall, we do not record provisions when the chances of loss are possible or remote, in accordance with IFRS. In cases where we litigate a claim, we record a provision for our estimate of the probable loss, based on historical data for similar claims. In addition, we record provisions by (i) on a case-by-case basis based on the analysis and legal opinion of internal and external counsel or (ii) considering the historical average amount of loss of such category of lawsuits. Due to the established provisions and the legal opinions provided, we believe that any liabilities related to these lawsuits or proceedings will not have a material adverse effect on our financial condition or results of operations.

As of December 31, 2009, our probable and possible contingent legal liabilities (tax, labor and civil) amounted to approximately R$17.6 billion, of which our probable contingent legal liabilities and legal obligations amounted to R$11.1 billion.

Tax Litigation

We are a party to several tax-related lawsuits and administrative actions. As of December 31, 2009, our probable and possible tax liability and legal obligations amounted to approximately R$11.1 billion, of which approximately R$6.4 billion were probable amounts or legal obligations and have been provisioned in accordance with our policies. It is our policy not to provision actions with possible and remote loss assessment.

In November 2009, the Bank and its controlled entities joined the program of installments and payment of tax and social security established by Law No. 11941/2009. In general terms, this program allows taxpayers to pay all tax debts administered by the Brazilian Federal Revenue Office and the National Treasury Attorney's Office and past-due taxes until November 30, 2008 (whether constituted or not, or entered in the federal over-due tax liability roster or not, as well as debts being demanded under tax enforcement claims already in progress), in one lump sum or in several installments of up to 180 months. The principal actions included in this program are:

(i) deductibility of CSLL, in which the entities were claiming the deduction of CSLL in the calculation of IRPJ;

(ii) concurrency IRPJ, in which ABN Leasing intended to reconcile for income tax depreciation expense in the same period of recognition of revenue from leasing consideration; and

(iii) lawsuit filed by several companies of the group challenging the application of an increased CSLL rate (18.0%-30.0%) for financial institutions as compared to the rate for non-financial companies (8.0%-10.0%). For the latter case, the adherence to procedures was partial, for reasons inherent in the processes.

The Bank and its subsidiaries also agreed to separate the tax and social security liabilities, which may be settled at a later date after the formal consolidation of all tax and social security debts, to be held by the Brazilian Federal Revenue Service under the rules of the program. No accounting effect has been recognized in the case of such separation as it was not possible to identify and quantify the processes to be included in the program and its accounting effects.

The main judicial and administrative proceedings that remain in place after the application of Law No. 11.941/09 are:

PIS/COFINS. We filed lawsuits seeking to invalidate the provisions of Article 3, Paragraph 1 of Law No. 9718/98, pursuant to which PIS and COFINS taxes must be levied on all revenues of legal entities. Prior to the enactment of such provisions, which have been overruled by recent Supreme Court decisions for nonfinancial institutions, PIS and COFINS were levied only on revenues from services and sale of goods.

Social contribution tax

- *Equal tax treatment*. We filed a lawsuit challenging the application of an increased CSLL rate of 18.0% for financial institutions, applicable until 1998, compared to the CSLL rate of 8.0% for non-financial institutions on the basis of the constitutional principle of equal tax treatment.

- *Tax rate increase*. We filed for an injunction to avoid the increase in the CSLL tax rate established by Executive Act No. 413/2008, subsequently codified into Law No. 11,727/2008. Financial institutions were formerly subject to a CSLL tax rate of 9%, however, Law No. 11,727/2008 established a 15.0% CSLL tax rate as from April 2008. Judicial proceedings are pending judgment.

- *Federal Revenue Services allegation*. We have questioned the Federal Revenue Services allegation of irregularities in certain CSLL tax payments, given that a final and non-appealable judgment was declared in our favor cancelling payment of such CSLL taxes pursuant to Law No. 7.689/1988 and Law No. 7.787/1989. Two of our subsidiaries are involved in separate actions relating to this proceeding.

- *Alleged non-compliance with amnesty law*. The federal government has demanded payment of certain CSLL taxes from certain entities, including us, alleging that such entities did not fulfill all the requirements listed under the tax amnesty under Law No. 9779/1999. Administrative and judicial proceedings are pending judgment.

Allowance for doubtful accounts. The tax authorities have requested payment of certain amounts relating to CSLL and IRPJ levied on amounts for doubtful accounts that were allegedly improperly deducted due to non-compliance with tax criteria in effect in 1995.

Taxes on banking transactions. In May 2003, the Federal Revenue Service issued a tax assessment against Santander Distribuidora de Títulos e Valores Mobiliários Ltda. and another tax assessment against our predecessor, Banco Santander Brasil S.A. The tax assessments refer to the collection of a CPMF tax on transactions conducted by Santander DTVM in the management of its customers' funds and clearance services provided by our predecessor to Santander DTVM in 2000, 2001 and the first two months of 2002. We believe that the tax treatment was adequate. The tax appeals board voided the service of process against Santander DTVM and confirmed the service of process notice of Banco Santander Brasil S.A. An administrative appeal can be filed with the Superior Chamber of Tax Appeals.

Taxes on reimbursement arising from contractual guarantees. In December 2007, the Federal Revenue Service issued an infraction notice against Banco Santander (Brasil) S.A. The notice refers to the collection of IRPJ and CSLL taxes for tax year 2002 on amounts reimbursed by the former controlling shareholder of Banco Santander (Brasil) S.A. for payments made by Banco Santander (Brasil) S.A. that were the responsibility of the controlling shareholder. The Federal Revenue Service deemed the amounts to be taxable income and not reimbursements. Banco Santander (Brasil) S.A. filed an administrative defense which had an unfavorable outcome.

Tax on services for financial institutions. Certain municipalities levy ISS taxes on certain revenues derived from transactions not usually classified as the rendering of services. In such cases, we have argued in administrative and judicial proceedings against the payment of ISS.

Social security contribution. We are involved in administrative and judicial proceedings regarding the collection of income tax on social security and education allowance contributions as we believe that these benefits do not constitute salary.

Labor Litigation

Similar to many other Brazilian banks, we are defending lawsuits brought by labor unions or individual employees seeking, in general, compensation for overtime work, lost wages and other labor rights, including lawsuits relating to retiree complaints about pension benefits. We believe we have either paid or adequately provisioned for all such potential liabilities. In addition, we are defendants in labor lawsuits filed by third party employees that rendered or render services to us through service providers. Brazilian courts understand that if a third party service provider fails to pay its employee, the employee has the right to demand payment directly from the company to which it rendered its services. As of December 31, 2009, our probable and possible labor-related litigation liabilities amounted to R$4.4 billion and we have provisioned for R$3.1 billion in connection with labor-related litigation for which the risk of loss is probable.

Civil Litigation

We are party to civil lawsuits claiming damages and other civil remedies. These disputes normally fall within one of the following categories typical for Brazilian banks: (1) actions requesting the review of contractual terms and conditions or seeking monetary adjustments, including the alleged effects of implementation of various economic government plans; (2) actions arising from loan agreements; (3) execution actions; and (4) actions seeking damages. As of December 31, 2009, our possible and probable civil litigation liabilities amounted to R$2.1 billion, of which we had provisioned R$1.6 billion for probable losses, including to cover the litigation described below. For civil lawsuits considered to be common and similar in nature, the provisions are recorded based on statistical average previous payments, and on the legal counsel's evaluation of success. Provisions for other lawsuits are determined individually on a case-by-case basis.

From September 2009 through January 2010, we have entered into some final and binding settlement agreements with respect to the lawsuits brought by minority shareholders of the former Banco Noroeste, arising from our acquisition of Banco Noroeste in 1998 and the subsequent merger of Banco Noroeste with us in 1999, pursuant to which we paid the plaintiffs R$93.8 million (plus R$11.0 million in attorneys' fees), and one of our controlling shareholders purchased the remaining shares held by such plaintiffs, in exchange for the discharge of all claims. These settlement agreements were homologated by the courts, and therefore the lawsuits were extinguished.

Other Litigation

In addition to the matters described above, we are from time to time subject to certain claims and parties to certain legal proceedings incidental to the normal course of our business, including in connection with our lending activities, relationships with our employees and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, we cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings and believe that liabilities related to such claims and proceedings should not have, in the aggregate, a material adverse effect on our business, financial condition, or results of operations. However, in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us; as a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and our level of income for that period.

In connection with the above, in December 2008, the Federal Revenue Service issued an infraction notice against Santander Brasil in the total amount of R$3.9 billion with respect to IRPJ and CSL related to 2002 and 2004. The tax authorities assert that Santander Brasil did not meet the legal requirements for deducting amortization of the goodwill arising from the acquisition of Banespa. We have filed an appeal to the Administrative Counsel of Tax Appeals (*Conselho Administrativo de Recursos Fiscais*) and a ruling is expected within approximately one year. We believe, in accordance with the advice of our external legal counsel, that the Federal Revenue Service's position is incorrect, that the grounds to contest this claim are well-founded, and that the risk of loss is remote. Accordingly, we have not recorded any provisions for this matter since this issue should not have an impact on our financial statements.

Grand Cayman Branch

We have a branch in Grand Cayman – Cayman Islands with its own staff and representative officers. Banco Santander S.A. – Grand Cayman Branch is licensed under The Banks and Trust Companies Law (2009 Revision) as a Category "B" Bank and it is duly registered as a Foreign Company with the Registrar of Companies in Grand Cayman – Cayman Islands. The Branch, therefore, is duly authorized to carry on banking business in the Cayman Islands. The branch was authorized by the local authorities to act as its own registered office and it is located at the Waterfront Centre Building, 28, North Church Street – 2nd floor, Grand Cayman – Cayman Islands, P.O. Box 10444 - KYI-1004, Phone: 1-345-769-4401 and Fax: 1-345-769-4601.

Our Grand Cayman branch is currently engaged in the business of sourcing funds in the international banking and capital markets to provide credit lines for us, which are then extended to our customers for working capital and trade-related financings. It also takes deposits in foreign currency from corporate and individual clients and extends credit to Brazilian and non-Brazilian clients, mainly to support trade transactions with Brazil. The results of the operations of the Grand Cayman branch are consolidated in our financial statements.

REGULATORY OVERVIEW

Principal Financial Institutions

Public Sector

The federal and state governments of Brazil control several commercial banks and financial institutions which play an important role in the Brazilian banking sector. These institutions represent a significant share of all deposits and assets in the banking system and a strong presence in specific market offerings, such as real estate and rural finance provided by private sector banks. Government-controlled banks include:

- Banco do Brasil, which is a federal government-controlled bank and provides a full range of banking products to the public and private sectors. Banco do Brasil is the primary financial agent of the federal government.

- BNDES, which is the federal government-controlled development bank, primarily engaged in the provision of medium- and long-term finance to the Brazilian private sector, particularly to industry, either directly or indirectly, through other public-and private-sector financial institutions.

- *Caixa Econômica Federal*, which is the federal government-controlled multiple-service bank and the principal agent of the National Housing Finance System. *Caixa Econômica Federal* is involved principally in deposit-taking and the provision of finance for housing and urban infrastructure.

- Other public sector development and multiple-service banks, including those controlled by the various state governments.

Private Sector

The private financial sector includes multiple-service banks, commercial banks, investment, finance and credit companies, investment banks, securities dealers, stock brokerage firms, credit cooperatives, leasing companies, insurance companies and others. In Brazil, the largest participants in the financial markets are financial conglomerates involved in commercial banking, investment banking, financing, leasing, securities dealing, brokerage and insurance.

According to the Central Bank, as of January, 2010 there were 2,338 financial institutions operating in Brazil, including:

- *Commercial banks* — 18 commercial banks operated in Brazil, engaged mainly in wholesale and retail banking and particularly in taking demand deposits and lending for working capital purposes.

- *Investment banks* — 16 investment banks operated in Brazil, engaged primarily in taking time deposits, specialized lending and securities underwriting and trading.

- *Bancos Múltiplos* (*Multiple-service banks*) — 139 multiple-service banks operated in Brazil providing, through a full range of commercial banking, investment banking (including securities underwriting and trading), consumer financing and other services including fund management and real estate finance pursuant to Central Bank Resolution No. 2,099 of August 17, 1994, as amended. Certain public-sector banks such as *Caixa Econômica Federal* are also multiple-service banks.

- In addition to the institutions mentioned above, the Central Bank also supervises the operations of consumer credit companies (*financeiras*), securities dealers (*distribuidoras de títulos e valores mobiliários*), stock brokerage companies (*corretoras de valores*), leasing companies (*sociedades de arrendamento mercantil*), savings and credit associations (*associações de poupança e empréstimo*) and real estate credit companies (*sociedades de crédito imobiliário*).

Banking Regulation

The basic institutional framework of the Brazilian financial system was established in 1964 by Law No. 4,595, the "Banking Reform Law." The Banking Reform Law created the CMN, responsible for examining monetary and foreign currency policies pertaining to economic and social development as well as operating the financial system.

Principal Limitations and Restrictions on Financial Institutions

The activities of financial institutions are subject to a series of limitations and restrictions. In general, such limitations and restrictions refer to the offering of credit, risk concentration, investments, conditional operations, foreign currency loans and negotiations, the administration of third party funds and microcredit. The principal restrictions on banking activities established by the Banking Reform Law are as follows:

- No financial, banking or credit institution may operate in Brazil without the prior approval of the Central Bank. In addition, foreign banks, in order to operate in Brazil, must be expressly authorized to do so by Presidential decrees.

- A financial, banking or credit institution may not invest in the equity of any other company except where such investment receives Central Bank approval based upon certain standards established by the CMN. Such investments may, however, be made without restriction through the investment banking unit of a multiple-service bank or through an investment bank subsidiary.

- A financial, banking or credit institution may not own real estate, except where it occupies such property and subject to certain limitations imposed by the CMN. If a financial, banking or credit institution receives real estate in satisfaction of a debt, such property must be sold within one year, unless otherwise authorized by the Central Bank.

- Financial institutions are prohibited from carrying out transactions that fail to comply with the principles of selectivity, guarantee, liquidity and risk diversification.

- Financial institutions are prohibited from granting loans or advances without constituting an appropriate deed representing such debt.

- A financial, banking or credit institution may not lend more than 25.0% of its net worth to any single person or group.

- A financial, banking or credit institution may not grant loans to or guarantee transactions of any company which holds more than 10.0% of its shares except (subject to the prior approval of the Central Bank) in certain limited circumstances.

- A financial, banking or credit institution may not grant loans to or guarantee transactions of any company in which it holds more than 10.0% of the share capital.

- A financial, banking or credit institution may not grant loans to or guarantee transactions of its executive officers and directors (including the immediate and extended families of such executive officers and directors) or to any company in which such executive officers and directors (including the immediate and extended families of such executive officers and directors) hold more than 10.0% of the share capital.

- Financial institutions are prohibited from carrying out conditional operations, namely those involving assets that are sold or purchased based on the occurrence of a number of specific conditions, in excess of an amount corresponding to 30 times their reference assets.

- The administration of third-party funds should be segregated from other activities and in compliance with the relevant rules imposed by the CVM.

- The registered capital and total net assets of financial institutions should always be compatible with the rules governing share capital and minimum capitalization imposed by the Central Bank for each type of financial institution.

- The total amount of funds applied in the fixed assets of financial institutions cannot exceed 50.0% of the respective amount of reference assets.

- Financial institutions may not expose themselves to gold, assets or liabilities referenced in currency exchange variations in excess of 30.0% of their reference equity.

Principal Regulatory Agencies

The Brazilian national financial system (*Sistema Financeiro Nacional*) is composed of the following regulatory and inspection bodies:

- the CMN;

- the Central Bank; and

- the CVM.

In addition, our insurance operations are subject to the following regulatory and inspection bodies:

- SUSEP; and

- *Secretaria de Previdência Complementar* (the "Complementary Pension Secretariat").

In addition, certain Brazilian financial institutions, such as Santander Brasil, are members of ANBIMA, a self-regulatory association that regulates investment banking activities.

The CMN, the Central Bank and the CVM regulate the Brazilian banking industry. Below is a summary of the main functions and powers of each of these regulatory bodies.

The CMN

The CMN, currently the highest authority responsible for regulating fiscal policies in Brazil, oversees the supervision of Brazilian monetary, credit, budgetary, fiscal and public debt policies. The CMN includes the president of the Central Bank, the Minister of Planning and the Minister of Finance and is chaired by the Minister of Finance. The CMN is authorized to regulate the credit operations of the Brazilian financial institutions, to regulate the Brazilian currency, to supervise Brazil's reserves of gold and foreign exchange, to determine Brazilian savings and investment policies and to regulate the Brazilian capital markets with the purpose of promoting the economic and social development of Brazil. In this regard, the CMN also oversees the activities of the Central Bank and the CVM. The main responsibilities of the CMN are:

- coordinating monetary, credit, budget, tax and public debt policies;

- establishing foreign exchange and interest rate policies;

- protecting the liquidity and solvency of financial institutions;

- overseeing activities related to the stock exchange markets;

- regulating the constitution and operation of financial institutions;

- granting authority to the Central Bank to issue currency and establishing reserve requirement levels; and

- establishing general directives for banking and financial markets.

The Central Bank

The Central Bank is responsible for implementing policies of the CMN as they relate to monetary and exchange control matters, regulating public- and private-sector Brazilian financial institutions and the monitoring and regulation of foreign investment in Brazil. The president of the Central Bank is appointed by the President of Brazil for an indefinite term of office subject to ratification by the Brazilian Senate.

The Central Bank is also responsible for:

- managing the day-to-day control over foreign capital flow in and out of Brazil (risk capital and loans in any form);
- setting forth the administrative rules and regulations for registering investments;
- monitoring foreign currency remittances;
- allowing repatriation of funds. In the event of a serious deficit in Brazilian balance of payment, the Central Bank may limit profit remittances and prohibit remittances as capital repatriation for a limited period of time;
- receiving compulsory withholdings and voluntary demand deposits from financial institutions;
- executing rediscount transactions and loans to banking financial institutions and other institutions authorized to operate by the Central Bank;
- acting as a depository of gold and foreign currency reserves; and
- controlling and approving the incorporation, functioning, transfer of control and equity reorganization of financial institutions and other institutions authorized to operate by the Central Bank.

The CVM

The CVM is the agency responsible for implementing CMN policy and it regulates, develops, controls and inspects the securities market. The CVM's headquarters is in Rio de Janeiro and it has jurisdiction in all Brazilian territory. The CVM is a quasi-governmental agency connected with the Ministry of Finance. It has independent administrative authority and legal standing and maintains its own assets. The main responsibilities of the CVM are:

- implementing and regulating the securities and exchange policies established by the CMN; and
- controlling and supervising the Brazilian securities market by:
  - approving, suspending and canceling the registration of public companies, the authorization for brokers and dealers to operate in the securities market and public offerings of securities;
  - supervising the activities of public companies, stock exchanges, commodities and futures exchanges, market members, and financial investment funds and variable income funds;
  - requiring full disclosure of material events affecting the market, as well as annual and quarterly reporting by public companies; and
  - imposing penalties.

Since 2001, the CVM has jurisdiction to regulate and supervise financial and investment funds that were originally regulated and supervised by the Central Bank.

In accordance with the Brazilian Securities Exchange Law, the CVM is managed by one president and four directors as appointed by the President of Brazil (and approved by the Senate) among individuals of good reputation and recognized expertise in the area of capital markets. CVM directors are appointed for a single five year term and one-fifth of the members must be renewed on a yearly basis.

All decisions handed down by the CVM and the Central Bank in administrative proceedings relating to the national financial system and the securities market are subject to appeal to the Board of Appeals of the National Financial System (*Conselho de Recursos do Sistema Financeiro Nacional*), which is composed of four members appointed by public authorities and four members from the private sector.

ANBIMA

ANBIMA was created on October 2009, as a result of the consolidation of the former National Association of Investment Banks (*Associação Nacional dos Bancos de Investimento*), or "ANBID" and the National Association of Financial Market Institutions (*Associação Nacional das Instituições do Mercado Financeiro*), or "ANDIMA". ANBIMA is a private regulatory body that acts as the main representative of entities operating in the Brazilian financial and capital markets. Its purpose is to strengthen the development of the financial and capital markets in Brazil. ANBIMA seeks to act in an innovative fashion, representing its members' interests and regulating its members' activities, often adopting rules that are generally more restrictive than the government legislation currently in force. ANBIMA also acts as a provider of Brazilian financial and capital markets information and promotes several initiatives for increased investor and market professional education.

ANBIMA's members are investment banks and multiple service banks, asset managers, brokerage firms, securities dealerships and investments consultants.

Regulation by the Central Bank

The Banking Reform Law empowered the Central Bank to implement the currency and credit policies established by the CMN and to control and supervise all public- and private-sector financial institutions. Pursuant to the Banking Reform Law, the Central Bank is responsible for:

- approving all corporate documents of a financial institution, any amendments thereto, any increase in capital, the setting up or transfer of its principal place of business or any branch (whether in Brazil or abroad) and changes of control and equity reorganization;

- determining the minimum capital requirements, compulsory deposit requirements and operational limits of financial institutions;

- overseeing the filing by financial institutions of annual and semi-annual financial statements audited by independent accountants, formal audit opinions and monthly unaudited financial statements prepared in compliance with the standard accounting rules established by the Central Bank for each type of financial institution; and

- requiring financial institutions to make full disclosure of credit transactions, foreign exchange transactions, destination of proceeds raised from export and import transactions and any other related economic activity on a daily basis through computer systems and written reports and statements.

The Central Bank regulations impose, among others, specific requirements as set forth below.

Capital Adequacy and Leverage

The Central Bank supervises the Brazilian banking system in accordance with the Basel Committee guidelines and other applicable regulations, including the Basel II Accord, 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 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 differ from the Basel Accord in several respects. For example, the Central Bank:

- imposes a minimum capital requirement of 11.0% instead of 8.0% as defined by the Basel Accord;
- requires an additional amount of capital with respect to off-balance sheet interest rate and foreign currency swap operations;
- does not allow the use of CCF for certain types of guarantee letters/bonds;
- assigns different risk weighting and credit conversion factors to some assets, including a risk weighting of 300% on deferred tax assets other than temporary differences;
- requires calculation and report on minimum capital requirements and capital ratios on a consolidated basis;
- requires 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 18.0% of average gross income amounts from financial intermediation. Circular No. 3,476 of December 24, 2009 establishes a formula to calculate the operational risk of non-financial institutions which are part of the bank;
- does 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; and requires banks to establish specific internal structures to identify, measure, control and mitigate operational and credit risks.
- On December 24, 2009, the Central Bank enacted Circular No. 3,477 which governs rules related to the disclosure of information related to risk management and capital base composition for regulatory purposes. Such disclosure shall be set out in a formal policy approved by the Board of Directors, and shall comprise detailed information regarding the internal structure of risk management strategies, the amounts involved in transactions which are subject to risk, guarantees, global exposure to risk, securitization, and other relevant information. The disclosure must be updated annually or quarterly, as the case may be, and will be required as from April, 2011.
- Furthermore, also on December 24, 2009, the Central Bank, through Circular No. 3,478, established minimum requirements for financial institutions to create internal regulations for calculation of the percentage of capital which may be allocated to market risks, subject to the prior approval of the Central Bank.

A bank's capital base composition, for supervisory purposes, is defined in two tiers, according to Brazilian rules:

- *Tier I:* Corresponds to the core capital comprised of equity capital and net profits minus (1) revaluation reserves, (2) contingency reserves, (3) specific deferred tax assets, (4) unrealized gain and losses of financial instruments recorded as equity and (5) specific deferred assets.
- *Tier II:* Consists of revaluation reserves, contingency reserves, hybrid debt capital instruments, subordinated term debt, unrealized gain and losses of financial instruments recorded as equity, preferred cumulative stock and preferred redeemable stock issued by financial institutions.

The total amount of Tier II capital can not exceed the total amount of Tier I capital, and the local regulation imposes limits on the Tier II capital, as follows:

- subordinated debt in Tier II capital, plus the amount of preferred redeemable stock originally maturing in less than 10 years, cannot exceed 50.0% of the Tier I capital;

- revaluation reserves in Tier II capital cannot exceed 25.0% of the Tier I capital; and
- a 20.0% reduction shall be applied to the amount of the subordinated debt and preferred redeemable stock in Tier II capital annually for the five years preceding the respective maturities.

Additionally, the following components are deducted from the capital:

(1) amounts paid into investment funds' capital, proportionate to the interest on each fund's portfolio,

(2) acquisition or indirect interest on financial conglomerates, through any non-financial affiliated entity, and

(3) assets related to funding instruments such as hybrid capital instruments, debt instruments and subordinated debt issued by financial institutions and other institutions authorized to operate by the Central Bank.

Provisional Measure No. 472 enacted on December 15, 2009 created the concept of the Financial Note instrument (*Letra Financeira*), which is a new funding alternative for financial institutions that can be characterized as subordinated debt or a hybrid instrument of capital for purposes of capital adequacy rules. Pursuant to Resolution No. 3,836 of February 25, 2010, its minimum term must be 24 months and it must be issued for a minimum amount of R$300,000.

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 international reserves of foreign currency 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 regulations increasing the role of the public sector in the Brazilian banking system. These regulations authorize: (1) Banco do Brasil and *Caixa Econômica Federal* 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; (2) the creation of Caixa Banco de Investimentos S.A., a wholly-owned subsidiary of *Caixa Econômica Federal*, with the objective of conducting investment banking activities; and (3) the Central Bank to carry out currency swap transactions with the central banks of other countries. Such provisional regulation was enacted into Law No. 11,908 on March 3, 2009.

Reserve and Other Requirements

Currently, the Central Bank imposes a series of requirements on financial institutions regarding compulsory reserves. Financial institutions must deposit these reserves at the Central Bank. The Central Bank uses reserve requirements as a mechanism to control the liquidity of the Brazilian financial system. Reserves imposed on current account, savings and time deposits represent almost the entirety of the amount that must be deposited at the Central Bank.

The CMN and the Central Bank recently enacted measures to modify Brazilian banking laws in order to provide the financial market with greater liquidity, including:

- establishing the amount that may be discounted from the time deposits reserve requirement of: (i) R$2.0 billion for financial institutions with regulatory capital under R$2.0 billion; (ii) R$1.5 billion for financial institutions with regulatory capital between R$2.0 billion and R$5.0 billion; and (iii) zero for financial institutions with regulatory capital higher than R$5.0 billion;
- establishing the rate applicable on additional time deposit and demand deposit reserve requirements of 8.0%;
- the rate applicable on additional savings accounts reserve requirements is 10.0%;

- providing that financial institutions may deduct the amount of foreign currency acquisition transactions with the Central Bank from the reserve requirements on interbank deposits of commercial leasing companies; and

- reducing the rate of compulsory demand deposits from 45.0% to 42.0%.

In October 2008, the Central Bank enacted further regulations, permitting financial institutions that acquire credit portfolios from small and mid-sized financial institutions (i.e., those institutions with a reference equity of up to R$2.5 billion in December 2008) to deduct the amount of the acquisition from up to 70.0% of the reserves and compulsory deposits that such financial institution must maintain with the Central Bank. Acquisitions of credit portfolios from the same small-and mid-sized financial institutions are limited to 20.0% of the total amount of credit portfolios acquired in order to enable such deduction.

Financial institutions may also deduct the reserve requirement and clearing balance requirement on time deposits from the respective amounts disbursed for the acquisition of certain (1) credit rights resulting from leasing, (2) fixed-income instruments issued by private non-financial entities, (3) assets owned by FIDCs, (4) shares in FIDCs organized by the FGC and shares in investment funds of multi-market and fixed income assets owned by the FGC, subject to the applicable composition criteria, and (5) interbank deposits of unrelated financial institutions.

On October 24, 2008 the Central Bank enacted regulations permitting financial institutions to deduct the amount of voluntary installments of the ordinary contribution to the FGC from compulsory demand deposits.

On October 6, 2008, the Brazilian President ratified provisional regulations allowing the Central Bank to: (1) acquire credit portfolios from financial institutions through rediscount operations; and (2) grant loans in foreign currencies in order to finance Brazilian export transactions. The term of the rediscount operations and the loans in foreign currencies will be for up to 360 days. After such term, the financial institution must repurchase its assets. The repurchase price of the rediscount operation will correspond to the purchase price with interest charged at the SELIC rate plus 4.0% per annum. The interest on foreign currency loans will be the LIBOR for the relevant foreign currency plus a percentage fixed by the Central Bank depending on market conditions.

The Central Bank will only acquire credit portfolios and debentures issued by non-financial institutions rated as AA, A or B, according to Central Bank rules. The financial institutions must provide the Central Bank with guarantees that may vary from 120% to 170% of the credit portfolio value, depending on the credit portfolio risk rate or guarantees that may vary from 120% to 140% of the debenture value, depending on its risk rate. In relation to the foreign currency loans, financial institutions must also provide the Central Bank with guarantees which may vary from 100% to 140% of the value of the loan.

In addition, on the rediscount operations, the Central Bank may impose the following measures on financial institutions: (1) the obligation to pay additional amounts in order to meet the risk that financial institutions may be exposed to; (2) the adoption of more restrictive operational limits; (3) the restrictions on certain transactions or operational practices; (4) the rearrangement of the adequate liquidity level of the financial institution; (5) the suspension of dividends higher than the minimum required by law; (6) the prohibition of acts that may result in an increase of the remuneration of management; (7) the prohibition of the development of new lines of business; and (8) the prohibition of sales of assets.

Below are some of the current types of reserves:

Time Deposits (*CDBs*). The Central Bank currently imposes a reserve requirement of 15.0% in relation to time deposits, and requires that such reserve requirement of 15.0% be calculated in relation to the weekly arithmetic average balance of time deposits discounted by R$30.0 million. At the end of each day, the amount of such securities shall be equivalent to 100% of the compulsory deposit requirements. After calculating the required reserve amount, the respective financial institution should deposit an amount equivalent to the surplus of (i) R$2.0 billion for financial institutions with regulatory capital under R$2.0 billion; (ii) R$1.5 billion for financial institutions with regulatory capital between R$2.0 billion and R$5.0 billion; and (iii) zero for financial institutions with regulatory capital higher than R$5.0 billion. At the close of each day, the amount of such securities should be equivalent to 100% of the reserve requirement.

Additional Deposit Requirements. The Central Bank stipulated an additional reserve requirement on deposits raised by full service banks, investment banks, commercial banks, development banks, finance, credit and investment companies, real estate credit companies and savings and loan associations. These institutions are required to deposit on a weekly basis highly liquid investments of the total sum of the following amounts discounted from R$1 billion in an interest-bearing account at the Central Bank: (1) 8.0% of the mathematical average of funds from time deposits and other specific amount subject to the reserve requirement; (2) 10.0% of the mathematical average of funds from savings accounts subject to the reserve requirement; and (3) 8.0% of the mathematical average of funds from demand deposits subject to the reserve requirement. These amounts must be discounted from: (i) R$2.0 billion for financial institutions with regulatory capital under R$2.0 billion; (ii) R$1.5 billion for financial institutions with regulatory capital between R$2.0 billion and R$5.0 billion; and (iii) zero for financial institutions with regulatory capital higher than R$5.0 billion. At the close of each day, the balance of such account should be equivalent to 100% of the additional reserve requirement.

Demand Deposits. As a general rule, banks are currently required to deposit 42.0% of the sum of the arithmetic average balance of demand deposits, previous notices, third-party funds in transit, collection of taxes and similar items, banker's checks, debt assumption agreements related to transactions carried out in Brazil, obligations for the rendering of services of payment, proceeds from the realization of guarantees and deposits for investment in excess of R$44.0 million. The calculation is made over a two-week period, beginning on Monday of the first week and ending on Friday of the following week. At the end of each day, the balance of the bank's accounts must be equivalent to at least 80.0% of the required deposit for the respective period.

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 lower 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. This reserve requirement is currently set 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 is currently set at zero by Central Bank.

Savings Accounts. The Central Bank currently requires Brazilian financial institutions to deposit on a weekly basis, in an interest-bearing account with the Central Bank, an amount in cash equivalent to 20.0% of the average weekly aggregate balance of savings accounts, during the second week from the week for which the calculation was made. In addition, a minimum of 65.0% of the total amount of deposits in savings accounts must be used to finance the housing or housing construction sector.

Reinvestment of Deposits Linked to Interbank Rates. Financial institutions are permitted to accept deposits with interest calculated by reference to the Average Interbank Interest Rate (*Taxa Básica Financeira*), subject to a reserve requirement of and provided that such deposits are made for a minimum of 90 days.

Interbank deposits performed by leasing companies. The Central Bank currently imposes a reserve requirement of 15.0% in relation to deposits performed by leasing companies in the interbank market and requires that such reserve requirement of 15.0% be calculated in relation to the weekly arithmetic average balance (from Monday to Friday of each week) of time deposits discounted by R$30 million. After calculating the required reserve amount, the respective financial institution should deposit an amount equivalent to the surplus of R$2 billion. At the close of each day, the amount of such securities should be equivalent to 100% of the reserve requirement. In order to fulfill such requirement, leasing companies may deposit in the SELIC system, the corresponding amount in federal bonds registered in such system.

Asset Composition Requirements

Permanent assets (defined as property and equipment other than commercial leasing operations, unconsolidated investments and deferred charges) of Brazilian financial institutions may not exceed 50.0% of the sum of their referenced shareholders' equity, calculated in accordance with the criteria established by the Central Bank.

Brazilian financial institutions may not have more than 25.0% of their referenced shareholders' equity allocated to credit transactions (including guarantees) extended to the same customer (including its parent, affiliates and subsidiaries) or in securities of any one issuer, and may not act as underwriter (excluding best efforts underwriting) of securities issued by any one issuer representing more than 25.0% of their referenced shareholders' equity.

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

The Central Bank has issued regulations for the classification and valuation of securities and derivative financial instruments — including government securities — owned by financial institutions, based on the investment strategy of the financial institution. Under these regulations, securities and derivatives are to be classified into three categories — trading, available for sale and held to maturity. "Trading" and "available for sale" securities are to be marked-to-market with effects in income and shareholders' equity, respectively. Securities classified as "held to maturity" are recorded at cost. Derivatives are marked-to-market and recorded as assets and liabilities in the balance sheet. Changes in the market value of the derivatives are generally recognized in income with certain modifications, if these are designated as hedges and qualify for hedge accounting under the regulations issued by the Central Bank. Securities and derivatives in the "held to maturity" portfolio may be hedged for accounting purposes, but their increase or decrease in value derived from the marked-to-market accounting method should not be taken into account.

Foreign Currency Loans

Individuals or legal entities domiciled in Brazil are allowed to enter into credit transactions with creditors domiciled abroad, without the need to obtain a prior approval from the Central Bank in connection with the inflow of funds into Brazil. Financial institutions and leasing companies are allowed to raise funds abroad and freely apply such funds in the local market. Lending such funds to other financial institutions, individuals or non-financial entities is also permitted. These onlendings take the form of loans denominated in Brazilian currency but indexed to the U.S. dollar, and their terms must mirror the terms of the original transaction. The interest rate charged must also conform to international market practices and, in addition to the original cost of the transaction, the financial institution may only charge an onlending commission.

Notwithstanding the exemption from prior approval, the inflow of funds into Brazil related to: (1) issuance of securities abroad; (2) foreign loans; (3) loans related to export transactions (securitization of export transactions); and (4) pre-payments of export transactions with a maturity term of more than 360 days, is subject to prior electronic declaratory registration through the Module RDE-ROF of SISBACEN.

The registration in such Module RDE-ROF shall be effected by the borrower or by its representative by providing the Central Bank with the relevant information regarding: (1) the parties of the transaction; (2) the financial conditions and the term for effecting the payment of principal, interest and other encumbrances; (3) the confirmation letter of the creditor, confirming the conditions of the transaction; and (4) any other information requested by the Central Bank through the SISBACEN.

As a general rule, registrations are automatically granted by the issuance of the RDE-ROF number of the transaction. Exceptions to this general rule are applicable when the costs of the transaction are not compatible with prevailing market conditions and practice and the structure of the transaction does not fit within the existing standards of the electronic system. So long as the Central Bank does not object to the registration within five business days, then the registration is complete. Without such initial registration, interested parties are neither able to receive funds in Brazil nor to remit the funds outside of Brazil. After the inflow of the funds, the borrower shall register the payment schedule in the Module RDE-ROF, which is indispensable for remittances abroad of principal, interest and charges, and for the shipment of goods, as the case may be.

Financial institutions which fail to provide required information to the Central Bank in respect of foreign exchange transactions or which provide incomplete or inaccurate information are subject to penalties.

On March 4, 2009, the CMN enacted Resolution No. 3,689, which authorizes the Central Bank to lend U.S. dollars to Brazilian banks in order for the banks to pay foreign debts incurred by their branches abroad.

Pursuant to Circular No. 3,474 enacted on November 13, 2009, financial derivatives (such as options, term agreements, future contracts or swaps) related to the cost of a onlending transaction executed between Brazilian residents and non-residents of Brazil shall be registered with a financial settlement system duly authorized by the Central Bank or the CVM.

Foreign Currency Position

Transactions involving the sale and purchase of foreign currency in Brazil may only be conducted by institutions duly authorized by the Central Bank to operate in the foreign exchange market. The Central Bank currently does not impose limits on foreign exchange short positions (i.e., where the aggregate amount of the purchases of foreign currency is less than the amount of the sales) of institutions authorized to operate in foreign exchange markets. Banks may hold long positions (i.e., when the aggregate amount of purchases of foreign currency is greater than the amount of sales) in the foreign exchange market up to a certain proportion of the amount of their adjusted net worth.

The Central Bank imposes a limit on the net exposure of Brazilian financial institutions and their affiliates to assets and debt subject to foreign currency and gold fluctuation. The limit is currently equivalent to 30.0% of the institution’s adjusted shareholders’ equity.

Penalties for non-compliance with foreign currency position limits range from compulsory sale of foreign currency to revocation of authorization to operate in the foreign exchange market.

Treatment of Overdue Debts

The Central Bank requires financial institutions to classify credit transactions in accordance with their level of credit risk as either AA, A, B, C, D, E, F, G or H, and to make provisions according to the level attributed to each transaction. Such credit classifications shall be determined in accordance with criteria set forth from time to time by the Central Bank relating to: (1) the condition of the debtor and the guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, administration and quality of controls, delay in payments, contingencies and credit limits; and (2) the terms of the transaction, such as its nature and purpose, type of collateral and, in particular, its level of liquidity and the total amount of the credit. Where there are several credit transactions involving the same customer, economic group or group of companies, the credit risk must be determined by analyzing the particular credit transaction of such customer or group which represents the greatest credit risk to the financial institution.

Credit transactions of up to R$50,000 may be classified either by the financial institution’s own evaluation method or according to the number of days such transaction is past due, whichever is the more stringent.

Credit classifications are required to be reviewed:

- monthly, in the event of a delay in the payment of any installment of principal or interest, in accordance with the following maximum risk classifications:

  (1) 1 to 14 days overdue: risk level A;

(2) 15 to 30 days overdue: risk level B;

(3) 31 to 60 days overdue: risk level C;

(4) 61 to 90 days overdue: risk level D;

(5) 91 to 120 days overdue: risk level E;

(6) 121 to 150 days overdue: risk level F;

(7) 151 to 180 days overdue: risk level G; and

(8) more than 180 days overdue: risk level H;

- every six months, in the case of transactions involving the same customer, economic group or group of companies, the amount of which exceeds 5.0% of the adjusted net worth of the financial institution in question; and

- once every 12 months, in all circumstances, except in the case of credit transactions with a customer whose total liability is lower than R$50,000, the classification of which may be reviewed as provided in item (1) above. Such R$50,000 limit may be amended by the Central Bank from time to time and applies only to transactions entered into on or before February 29, 2000.

Failure to comply with the requirements established by the Central Bank will result in the reclassification of any transaction to risk level H.

Credit loss provisions must be made monthly by each financial institution in accordance with the following:

- 0.5% of the total amount of credit transactions classified as level A;

- 1.0% of the total amount of credit transactions classified as level B;

- 3.0% of the total amount of credit transactions classified as level C;

- 10.0% of the total amount of credit transactions classified as level D;

- 30.0% of the total amount of credit transactions classified as level E;

- 50.0% of the total amount of credit transactions classified as level F;

- 70.0% of the total amount of credit transactions classified as level G; and

- 100.0% of the total amount of credit transactions classified as level H.

The allowances for credit losses reflected in our IFRS financial statements are not based on the above criteria but rather on the criteria described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Allowance for credit losses." Such allowances are greater in the reported periods than the allowances required under Central Bank rules.

Transactions with Affiliates

Law No. 7,492 of June 16, 1986, which defines crimes against the Brazilian financial system, defines as a crime the extension of credit by a financial institution to any of its directors or officers and certain of such individuals family members and any entity controlled directly or indirectly by such financial institution or which is subject to common control with such financial institution (except loans to leasing subsidiaries). Violations of Law No. 7,492 are punishable by two to six years' imprisonment and a fine. On June 30, 1993, the Central Bank issued Resolution No. 1,996, which requires any such transaction to be reported to the Public Ministry's office.

Facilitation of Financial Sector Consolidation

The Brazilian government established a set of rules with the purpose to facilitate corporate reorganizations among financial institutions. These rules assure the liquidity and solvency of the National Financial System, and hold harmless depositors' and investors' interests. Such benefit is granted to some financial institutions, subject to Central Bank's authorization. The main measures include: (1) granting the Central Bank power to determine mandatory capitalization and to regulate the transfer of control and/or corporate restructuring of financial institutions; (2) the establishment by the Central Bank of a special credit facility, known as the *Programa de Estímulo à Reestruturação e ao Fortalecimento do Sistema Financeiro Nacional* (the Program for the Improvement and Enhancement of the National Financial System, or the "PROER"), for the specific purpose of financing financial institutions which acquire control or assets and obligations of other financial institutions or whose control is transferred to third parties; and (3) the creation of certain tax benefits for the financial institutions which are financed by the PROER.

The PROER was created to protect savings and investments in Brazil. The PROER allowed the Central Bank to intervene to protect against failures of financial institutions facing liquidity crises. The creation of the PROER streamlined the process by which the government could acquire control of a failing financial institution and granted the Central Bank authority to determine an appropriate course of action to prevent failure of any such financial institution, whether through a capital increase, merger, spin-off or otherwise. Non-compliance by a financial institution with any such determinations by the Central Bank could make such financial institution subject to the Temporary Special Administration Regime (*Regime de Administração Temporária*), as described below. The intention in establishing the PROER was to strengthen prudent supervision of financial institutions by means of verification of liquidity and asset quality. These measures were similar to current measures being implemented in the United States and Europe in response to the current global financial crisis.

Deposit Insurance

On November 16, 1995, the Central Bank created the FGC, the purpose of which is to guarantee the payment of funds deposited with financial institutions in case of intervention or liquidation. The FGC is funded by contributions made by the financial institutions in the amount of up to 0.0125%, as determined by the board of directors of the FGC, of the total amounts of: (1) demand deposits, (2) deposits in investment accounts, (3) savings deposits, (4) time deposits, (5) bills of exchange (*letras de câmbio*), (6) real estate bills (*letras imobiliárias*), (7) mortgage bills (*letras hipotecárias*) and real estate financing credits (*letras de crédito imobiliário*), for which the financial institutions were liable during the month preceding the calculation date. The delay in performing such contributions is subject to a penalty of 2.0% over the amount of the contribution.

The FGC is managed by a board of directors, the members of which are appointed by the National Confederation of Financial Institutions (*Confederação Nacional de Instituições Financeiras*) and by an executive commission, whose members are appointed by the board of directors and confirmed by the Central Bank. The total amount of credit in the form of demand deposits, savings deposits, time deposits, bills of exchange, real estate bills and mortgage bills due to each customer by a financial institution (or by financial institutions of the same financial group) will be guaranteed by the FGC for up to a maximum of R$60,000 per customer. When the assets of the FGC reach 2.0% of the total amounts they guarantee, the CMN may temporarily suspend or reduce the contribution of financial institutions to the FGC. On March 26, 2009 the Central Bank enacted Resolution No. 3,692 authorizing financial institutions to raise funds by means of time deposits guaranteed by the FGC for a maximum of R$20 million provided that such deposits (1) have a minimum term of twelve months and a maximum term of 60 months, (2) not be callable before its term, and (3) be limited to (a) R$20 million per deposit of the same bank, and (b) twice the bank's tier one reference net worth calculated on December 31, 2008 or the sum of the balance of the bank's all time deposits with the balance of the bank's liabilities in connection with bills of exchange on June 30, 2008, whichever is higher, limited to R$5 billion.

Internal Compliance Procedures

All financial institutions must have in place internal policies and procedures to control:

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

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

The internal auditing department reports directly to the board of executive officers or management of the institution, as applicable. The external auditors are responsible for issuing a report on the internal control system.

Rules about the Collection of Bank Fees

New rules meant to standardize the collection of bank fees and the cost of credit transactions for individuals were approved by CMN in December of 2007. According to the new rules, effective as of April 30, 2008, bank services must be divided into the following four groups: (1) essential services; (2) specific (or differentiated) services; (3) priority services; and (4) special services.

Banks are not allowed to collect fees in exchange for the supply of essential services to individuals with regard to checking accounts, such as (1) supply of debit cards; (2) supply of ten checks per month to account holders who meet the requirements to use checks as per the applicable rules; (3) supply of a second debit card (except in cases of loss, theft, damage and other reasons not caused by the bank); (4) up to four withdrawals per month, which can be made at the branch of the bank, using checks, additional checks or at ATM terminals; (5) supply of up to two statements describing the transactions during the month to be obtained through ATM terminals; (6) inquiries over the internet; (7) up to two transfers of funds between accounts held by the same bank, per month at the branch, through ATM terminals and/or over the internet; (8) clearance of checks; and (9) supply of consolidated statement describing, on a month by month basis, the fees charged over the proceeding year with regards to checking accounts and/or savings accounts. Certain services rendered to individuals with regards to savings account also fall under the category of essential services and, therefore, are exempt from the payment of fees.

The regulation authorized financial institutions to collect fees for the performance of specific services, provided that the account holder or user is informed of the conditions for use and payment. Some of the specific services are: (1) approval of signature; (2) management of investment funds; (3) rental of safe deposit boxes; (4) courier services; and (5) custody and brokerage services, among others.

Priority services are those rendered to individuals with regards to checking accounts, transfer of funds, credit transactions and records and are subject to the collections of fees by the financial institutions. The Central Bank defines the standards for names and delivery channels, acronym identification and description of triggering events for such services.

The collection of fees in exchange for the supply of special services (including, among others, services related to rural credit, currency exchange market and on-lending of funds from the real estate financial system, for example) are still governed by the specific provisions found in the laws and regulations relating to such services.

The regulation approved by CMN also prohibited the collection of fees when there are not enough funds in the account to cover such payment. Furthermore, an increase in existing fees can only take place 180 days after the last change (while reductions can take place at anytime), must be disclosed at least 30 days in advance and only apply to services used after such date. The institution of new fees is also subject to the obligation of disclosure to customers at least 30 days in advance.

Brazilian Payment and Settlement System

The rules for the settlement of payments in Brazil are based on the guidelines adopted by the Bank of International Settlements, or "BIS," and 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, all clearing houses are required to adopt procedures designed to reduce the possibility of systemic crises and to reduce the risks previously borne by the Central Bank. The most important principles of the Brazilian Payment and Settlement 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.

Insolvency Laws Concerning Financial Institutions

Financial institutions are subject to the proceedings established by Law No. 6,024 of March 13, 1974 (which establishes the applicable provisions in the event of intervention or extra-judicial liquidation by the Central Bank) as well as to bankruptcy proceedings.

Intervention and extra-judicial liquidation occur when it has been verified that the financial institution is in a bad financial condition or upon the occurrence of events that may impact the creditors' situation. Such measures are imposed by the Central Bank in order to avoid the bankruptcy of the entity.

Intervention

Pursuant to Law No. 6,024/74, the Central Bank has the power to appoint an intervener to intervene in the operations or to liquidate any financial institution other than public financial institutions controlled by the Brazilian federal government. An intervention may be carried out at the discretion of the Central Bank if it can be determined that:

- due to mismanagement, the financial institution has suffered losses leaving creditors at risk;

- the financial institution has consistently violated Brazilian banking laws or regulations; or

- intervention is a feasible alternative to the liquidation of the financial institution.

As from the date on which it is ordered, the intervention will automatically: (1) suspend the enforceability of the payable obligations; (2) prevent early termination or maturity of any previously contracted obligations; and (3) freeze deposits existing on the date on which the intervention is decreed. The intervention will cease (1) if interested parties undertake to continue the economic activities of the financial institution, by presenting the necessary guarantees, as determined by the Central Bank; (2) when the situation of the entity is regularized as determined by the Central Bank; or (3) when extra-judicial liquidation or bankruptcy of the entity is ordered.

Intervention may also be ordered upon the request of a financial institution's management.

Any such intervention period should not exceed six months, which, by decision of the Central Bank, may be extended only once for up to six additional months. The intervention proceeding will be terminated if the Central Bank establishes that the irregularities that have triggered an intervention have been eliminated. Otherwise, the Central Bank may extra-judicially liquidate the financial institution or authorize the intervener to file for voluntary bankruptcy currently governed by Law No. 11.101 (as of February 9, 2005, the new Brazilian Bankruptcy and Restructuring Law, or "NBRL"), among other situations, if the assets of the intervened institution are insufficient to satisfy at least 50.0% of the amount of its outstanding unsecured debts.

Extra-judicial Liquidation

Extra-judicial liquidation is an administrative proceeding decreed by the Central Bank (except that it is not applicable for those financial institutions controlled by the Brazilian federal government) and conducted by a liquidator appointed by the Central Bank. This extraordinary measure aims at terminating the activities of the affected financial institution, liquidating its assets and paying its liabilities, as in a judicially decreed bankruptcy.

The Central Bank will extra-judicially liquidate a financial institution if:

- the institution's economic or financial situation is at risk, particularly when the institution ceases to meet its obligations as they fall due, or upon the occurrence of an event that could indicate a state of insolvency under the rules of the NBRL;

- management seriously violates Brazilian banking laws, regulations or rulings;

- the institution suffers a loss which subjects its unprivileged and unsecured creditors to severe risk; and/ or

- upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within 90 days or, if initiated, the Central Bank determines that the pace of the liquidation may harm the institution's creditors.

The decree of extra-judicial liquidation will (1) suspend the actions or foreclose on rights and interests relating to the estate of the entity being liquidated, while no other actions or executions may be brought during the liquidation; (2) accelerate the obligations of the entity; and (3) interrupt the statute of limitations with regard to the obligations assumed by the institution. The extra-judicial liquidation will cease (1) if interested parties undertake to continue the company's economic activities, by presenting the necessary guarantees, as per the discretion of the Central Bank; (2) with the approval of the final accounts of the liquidator and entry in the appropriate public registry; and (3) with the decree of the entity's bankruptcy.

On the other hand, however, a request for liquidation procedures can be filed on reasonable grounds by the officers of the respective financial institution or by the receiver indicated by the Central Bank in the receivership procedure.

Extrajudicial liquidation procedures may be terminated:

- by discretionary decision of the Central Bank if the parties involved undertake the administration of the financial institution after having provided the necessary guarantees;

- when the final accounts of the receiver are delivered and approved and subsequently registered in the relevant public records;

- when converted into ordinary liquidation; or

- when a financial institution is declared bankrupt.

Temporary Special Administration Regime (Regime de Administração Especial Temporária, or "RAET")

In addition to the intervention procedures described above, the Central Bank may also establish RAET, which is a less severe form of Central Bank intervention in private and non-federal public financial institutions which allows institutions to continue to operate normally. The RAET may be ordered in the case of an institution which:

- continually enters into operations which are against economic or financial policies set forth under federal law;

- faces a shortage of assets;

- fails to comply with the compulsory reserves rules;
- the existence of hidden liabilities;
- the occurrence of situations that cause receivership pursuant to current legislation;
- has reckless or fraudulent management; or
- carries out activities which call for an intervention.

The main object of RAET is to assist the recovery of the financial conditions of the institution under special administration and thereby avoid intervention and/or liquidation. Therefore, RAET does not affect the day-to-day business, operations, liabilities or rights of the financial institution, which continues to operate in the due course.

There is no minimum term for RAET, which ceases upon the occurrence of any of the following events: (1) acquisition by the Brazilian federal government of control of the financial institution; (2) corporate restructuring, merger, spin-off, amalgamation or transfer of the controlling interest of the financial institution; (3) decision by the Central Bank; or (4) declaration of extra-judicial liquidation of the financial institution.

New Bankruptcy Law

On February 9, 2005, the Brazilian Congress enacted the NBRL, which regulates judicial reorganizations, out-of-court reorganizations and bankruptcy of individuals and corporations. The NBRL is effective as of June 10, 2005 and only applies to financial institutions with respect to the matters not specifically regulated by the intervention and extrajudicial liquidation regimes previously described. The NBRL does not directly affect financial institutions, which continue to be subject to intervention and extra-judicial liquidation regimes according to Law No. 6,024/74 and may not file for judicial or out-of-court reorganization. See "—Brazilian Payment and Settlement System—Insolvency Laws Concerning Financial Institutions."

Repayment of Creditors in a Liquidation or Bankruptcy

In the event of extra-judicial liquidation or bankruptcy of a financial institution, creditors are paid pursuant to their priorities and privileges. Pre-petition claims are paid on a ratable basis in the following order:

- labor credits capped at an amount equal to 150 times the minimum wages per employee, and claims relating to occupational accidents;
- secured credits up to the encumbered asset value;
- tax credits, except tax penalties;
- credits with special privileges;
- credits with general privileges;
- unsecured credits;
- contractual fines and pecuniary penalties for breach of administrative or criminal laws, including those of a tax nature; and
- subordinated credits.

Super-priority and post-petition claims, as defined under the NBRL, are paid with preference over pre-petition claims.

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 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 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 the CMN's Resolution No. 1,065, enacted on 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 violation of the Central Bank regulations by the management of the financial institution or negligence of the financial institution in pursuing adequate banking practices concerning its exchange activities.

In addition, the Central Bank may, according to CMN's Resolution No. 3,040 of November 28, 2002, cancel the authorization to operate granted to the financial institution if one or more of the following situations are verified at any time: (1) operational inactivity, without acceptable justification; (2) the institution is not located at the address provided to the Central Bank; (3) failure to send to the Central Bank for over four months, without acceptable justification, the financial statements required by the regulations in effect; and/or (4) failure to observe the timeframe for commencement of activities. The cancellation of a banking license may only occur after the appropriate administrative proceeding is carried out by the Central Bank.

Anti-Money Laundering Regulations and Banking Secrecy

Under Circular No. 3,461 enacted by the Central Bank on July 24, 2009, regulated by Circular No. 3,430 enacted on February 11, 2010, consolidating and improving the Brazilian anti-money laundering legislation, financial institutions must:

(1) keep up-to-date records regarding their customers (including statements of purpose and nature of transactions and the verification of characterization of customers as politically-exposed individuals). Circular No. 3,430 gives examples of who may be considered permanent and occasional customers for purposes of record requirements;

(2) adoption of preventive policies and internal proceedings;

(3) record transactions involving Brazilian and foreign currency, securities, metals or any other asset which may be converted into money, including specific registries of issuance or recharging of prepaid cards;

(4) keep records of transactions or groups of turnover of funds carried out by individuals or entities belonging to the same group of companies in a total amount exceeds R$10,000 in a calendar month or reveal a pattern of activity that suggests a scheme to avoid identification;

(5) review transactions or proposals the features of which may indicate criminal intentions;

(6) keep records of every transference of funds related to (a) deposits, wire transfers, check, among others and (b) issuance of check, order of payments, among others in amounts that exceed R$1,000; and

(7) notify the relevant authority within terms that vary from one business day as from the proposed transaction to five business days as from the end of the calendar month of any transaction that is considered suspect by the financial institution.

The financial institutions must inform the Central Bank (without notifying the customer) of any transactions of the type referred to under (3) and (4) above that exceed R$10,000. Notwithstanding this threshold, the financial institutions must review transactions which characteristics may indicate the existence of a crime and inform the Central Bank within 24 hours of the proposed or executed transaction, in accordance with Law No. 9,613 of March 3, 1998. The records referred to above must be kept for at least five years or ten years, depending on the nature of the information, as from the end of the relationship with the customer.

Failure to comply with any of the obligations indicated above may subject the financial institution and its officers and directors to penalties that vary from the application of fines (between 1% and 100% of the transaction amount or 200% over any profit generated) to the declaration of its officers and directors as ineligible to exercise any position at a financial institution and/or the cancellation of the financial institution's operating license.

Government and auditors from the Brazilian Internal Revenue Service may also inspect an institution's documents, books and financial registry in certain circumstances.

On March 3, 1998, the Brazilian government created the *Conselho de Controle de Atividades Financeiras* (the Council of Control of Financial Activities, or "COAF"), which operates under the Ministry of Finance. The purpose of the COAF is to investigate, examine, identify and impose administrative penalties in respect of, any suspicious or unlawful activities related to money laundering in Brazil. The COAF is composed of a President appointed by the Ministry of Finance and eight members of the council, one of whom is appointed by each of the following entities: (1) the Central Bank; (2) the CVM; (3) the Ministry of Foreign Affairs; (4) the SUSEP; (5) the Federal Revenue Service (the *Secretaria da Receita Federal*); (6) the Office of the Attorney-General of the National Treasury; (7) the Federal Police Department; and (8) the Federal Intelligence Agency. The term of office of each of the president and the other members of the council is three years.

Brazilian financial institutions are also subject to strict bank confidentiality regulations and must maintain the secrecy of their banking operations and services provided to their customers. The only circumstances in which information about customers, services or transactions of Brazilian financial institutions or credit card companies may be disclosed to third parties are the following: (1) the disclosure of information with the express consent of the interested parties; (2) the exchange of information between financial institutions for record purposes; (3) the supply to credit reference agencies of information based on data from the records of issuers of bank checks drawn on accounts without sufficient funds and defaulting debtors; and (4) as to the occurrence or suspicion that criminal or administrative illegal acts have been performed, in which case the financial institutions and the credit card companies may provide the competent authorities with information relating to such criminal acts when necessary for the investigation of such acts. Complementary Law No. 105/01 also allows the Central Bank or the CVM to exchange information with foreign governmental authorities, provided that a specific treaty in that respect may have been previously executed.

Politically-Exposed Individuals

Pursuant to Circular No. 3,461, enacted by the Central Bank on July 24, 2009, 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 transaction of customers who are deemed to be politically exposed individuals.

For purposes of this regulation, politically exposed individuals are public agents and their immediate family members, spouses, life partners and stepchildren who occupy or have occupied a relevant public office or position over the past five years in Brazil or other countries, territories and foreign jurisdictions.

Circular No. 3,461 provides that the internal procedures developed and implemented by such financial institutions must be structured in such a way as to enable the identification of politically exposed individuals, as well as the origin of the funds involved in the transactions of such customers. One option is to verify the compatibility between the customer's transactions and the net worth stated in such customer's file.

Independent Accountants

All financial institutions must be audited by independent auditors. Financial institutions may only engage an independent auditor duly registered with the CVM and certified as a specialist in banking analysis by the Central Bank. 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 years. Former accountants can be rehired only after three complete years have passed since their prior service.

In addition to audit reports, independent auditors must also:

- review during the execution of audit procedures, to the extent deemed necessary, the financial institution's internal risk management controls and procedures, including in relation to its electronic data processing system, and identify any potential failings; and

- report on the financial institution's non-compliance with any applicable regulation to the extent it is material to its financial statements or activities.

Independent auditors and the fiscal council, when established, must notify the Central Bank of the existence or evidence of error or fraud within three business days of the identification of such error or fraud, including:

- non-compliance with rules and regulations that place the continuity of the audited entity at risk;

- fraud of any amount perpetrated by the management of the institution;

- material fraud perpetrated by the institution's employees or third parties; and

- material errors in the accounting records of the audited entity.

A March 2002 amendment to Brazilian GAAP gave the members of our board of directors who are appointed by our preferred shareholders or our common shareholders veto rights over the appointment or removal of our independent auditors. For more information regarding appointment of members of our board of directors, see "Management."

Audit Committee

On May 27, 2004, the CMN enacted Resolution No. 3,198, which regulates the rendering of independent accountants' services to financial institutions and other institutions authorized to operate in Brazil by the Central Bank, as well as to clearing houses and clearing and custody service renderers. Resolution No. 3,198, as amended, requires financial institutions and certain other entities holding a reference net worth equal to or greater than R$1 billion to create a corporate body designated as an "audit committee", which must be composed of at least three individual members, with a maximum term of office of five years. At least one of the members must have accounting and financial knowledge. The institution's fiscal council may perform the duties of the audit committee, provided it operates on a permanent basis, subject to the provisions of Resolution No. 3,198.

In addition, Brazilian legislation also permits the creation of a single committee for an entire group of companies. In this case, the audit committee or the fiscal council, as the case may be, should be responsible for any and all financial institutions belonging to the same group, provided that these financial institutions comply with the requirements mentioned above.

Auditing Requirements

We are required under Brazilian law to prepare our financial statements in accordance with Brazilian GAAP and other applicable regulations. As a financial institution, we are required to have our financial statements audited every six months. Quarterly financial information filed with the CVM is subject to review by its independent accountants. In January 2003, the CVM approved regulations requiring audited entities to disclose information relating to an independent accounting firm's non-auditing services whenever such services represent more than 5.0% of the fees the entity paid to the external accounting firm.

In addition, in accordance with CMN Resolution No. 3,786, dated September 24, 2009, as of December 31, 2010, our annual statutory consolidated financial statements must be prepared in accordance with IFRS, and accompanied by an independent audit report confirming that the financial statements have been so prepared.

Ombudsman Office

Pursuant to Resolution No. 3,477 enacted by the CMN on July 26, 2007, financial institutions and other entities which are authorized to operate by the Central Bank must, as from September 30, 2007, have an ombudsman office to facilitate communication between the institutions and their customers, and in order to strictly observe consumer rights legislation and the enhancement and improvement of products, services and customer service. The ombudsman's office must be managed by, an ombudsman officer (who may also be the ombudsman himself, provided that, in this case, such person may not be responsible for any other activity in the financial institutions) and be proportional to the institution's activities and the complexity of its products. Institutions which are part of a financial group are allowed to establish one ombudsman office to service to the whole group.

Financial institutions must report and maintain updated information on the officer in charge of the ombudsman office. The officer in charge must prepare a report every six months (as of June 30 and December 31 of each year) and whenever a material event is identified according to the instructions of the Central Bank.

Asset Management Regulation

Asset management is regulated by the CMN, the Central Bank and the CVM.

Investment funds are subject to the regulation and supervision of the CMN and the CVM and, in certain specific matters, the Central Bank. Investment funds may be managed by multiple service banks, commercial banks, savings banks, investment banks, credit, finance and investment companies and brokerage and dealer companies within certain operational limits. CMN regulations provide that institutions must segregate their asset management activities from their other activities.

Investment funds may invest in any type of financial instrument available in the financial and capital markets, including, for example, fixed income instruments, stocks, debentures, and derivative products provided that, in addition to the denomination of the fund, a reference to the relevant type of fund is included, in accordance with the classification table of Instruction No. 409, enacted by the CVM on August 18, 2004, as amended (and, in relation to structured investment funds, in accordance with specific regulation enacted by CVM for each type of structured investment fund).

Investment funds may not:

- have more than 10.0% of their net worth invested in securities of a single issuer that is not a financial institution, its controlling shareholders, subsidiaries and affiliates or of a federal, state, municipality or other investment fund; and

- have more than 20.0% of their net worth invested in securities issued by a financial institution (including the fund manager), its controlling shareholders, subsidiaries and affiliates.

The Central Bank enacted Circular No. 3,086 on February 15, 2002, establishing criteria for the registration and accounting evaluation of securities and financial instruments and derivatives that form financial investment funds, application funds in quotas of investment funds, individual programmed retirement funds and offshore investment funds. According to such Circular, the Central Bank ordered fund managers to mark their fixed-income securities to market; hence, the fund's portfolio assets must be accounted for at their fair market value, instead of their expected yield to maturity. As a result of this mark-to-market mechanism, the fund quotas reflect the fund's net asset value.

The asset management industry is also self-regulated by ANBIMA, which enacts additional rules and policies from time to time, especially with respect to the marketing and advertising of investment funds.

Broker-Dealer Regulation

Broker and dealer firms are part of the national financial system and are subject to CMN, Central Bank and CVM regulation and supervision. Brokerage firms must be chartered by the Central Bank, and are the only institutions in Brazil authorized to trade on Brazil's stock, mercantile and futures exchanges. Both brokers and dealers may act as underwriters in the public placement of securities and engage in the brokerage of foreign currency in any exchange market.

Broker and dealer firms may not:

- execute operations that may be qualified as the granting of loans to their customers, including the assignment of rights with limited exceptions;

- collect commissions from their customers related to transactions of securities during the primary distribution;

- acquire real estate which is not for their own use; or

- obtain loans from financial institutions, except for (1) loans for the acquisition of goods for use in connection with the firm's corporate purpose or (2) loans the amount of which does not exceed two times the relevant firm's net worth.

Foreign Investment in Brazil

Foreign Direct Investment

Foreign direct investment in Brazil is regulated by Law No. 4,131, and Law No. 4,390 enacted on September 3, 1962 and August 29, 1964, respectively. According to Law No. 4,131, foreign capital is considered to be "any goods, machinery and equipment that enter Brazil, with no initial disbursement of foreign currency, for the production of goods and services, as well as any funds brought into the country for investment in economic activities, provided that in both cases they belong to individuals or legal entities resident, domiciled or headquartered abroad."

Foreign capital must be registered with the Central Bank through the Electronic Registration System — Foreign Direct Investment (the *Registro Declaratório Eletrônico — Investimento Externo Direto*) within 30 days of the flow of funds into Brazil in accordance with Law No. 4,131. The registration of foreign capital is required for the remittance of profits abroad, the repatriation of capital and the registration of reinvestments. Investments will always be registered in the foreign currency in which they are actually made, or in Brazilian currency, if the funds are derived from a non-resident account properly kept in Brazil.

On December 28, 2006, Law No. 11,371 amended Law No. 4,131, it established that the foreign capital invested in Brazilian companies not yet duly registered with the Central Bank within such 30 day period and not subject to other types of registration must be registered therewith. For the purposes of such registration, the amount of foreign capital in *reais* to be registered must be evidenced in the accounting records of the relevant Brazilian company. Foreign capital invested and not already registered must be registered prior to the last business day of the subsequent calendar year during which the company becomes obligated to register the capital.

Other than such registration, foreign investment is not subject to government approvals or authorizations, and there are no requirements regarding minimum investment or local participation in capital (except in very limited cases such as in financial institutions, insurance companies and other entities subject to specific regulations). Foreign participation, however, is limited (i.e., subject to approvals) or forbidden in several sectors. A Presidential Decree enacted in November 1997 allows up to one hundred percent foreign participation in the capital stock of Santander Brasil.

Foreign investments in currency must be officially channeled through financial institutions duly authorized to deal in foreign exchange. Foreign currency must be converted into Brazilian currency and vice versa through the execution of an exchange contract. Foreign investments may also be made through the contribution of assets and equipment intended for the local production of goods and services.

Capital Markets Investment

Investors residing outside Brazil, including institutional investors, are authorized to purchase securities in Brazil on the Brazilian stock exchange, provided that they comply with the registration requirements set forth in Resolution No. 2,689, issued on January 26, 2000, of the CMN, and CVM Instruction No. 325, issued on January 27, 2000.

With certain limited exceptions, Resolution No. 2,689 investors are permitted to carry out any type of transaction in the Brazilian capital markets involving a security traded on a stock, future or organized over-the-counter market, but may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through private transactions. Investments and remittances outside Brazil of gains, dividends, profits or other payments under Santander Brasil's preferred shares are made through the commercial rate exchange market.

In order to become a Resolution No. 2,689 investor, an investor residing outside Brazil must:

- appoint at least one representative in Brazil that will be responsible for complying with registration and reporting requirements and reporting procedures with the Central Bank and the CVM. If the representative is an individual or a non-financial company, the investor must also appoint an institution duly authorized by the Central Bank that will be jointly and severally liable for the representative's obligations;

- complete the appropriate foreign investor registration form;

- register as a foreign investor with the CVM;

- register the foreign investment with the Central Bank;

- appoint a tax representative in Brazil; and

- obtain a taxpayer identification number from the Brazilian federal tax authorities.

PIS and COFINS Tax Rates

Since September 2003, the PIS and COFINS have been imposed on our revenues, net of certain expenses, at a combined rate of 4.65%. The COFINS and the PIS rate for certain non-financial companies is 7.6% and 1.65%, respectively, resulting in a combined rate of 9.25%, although certain deductions for expenses are authorized (non-cumulative PIS and COFINS regime). These rates affect us less directly, as only certain of our consumer finance subsidiaries are considered to be non-financial institutions for the purposes of COFINS and PIS. The PIS and COFINS rates on the revenues resulting from financial revenues received by legal entities, which are subject to the non-cumulative PIS and COFINS regime, are currently zero. This rate, however, is not applicable to revenues derived from interest over capital.

PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses) and therefore, under IFRS are recorded as income taxes.

Tax on Financial Transactions (IOF)

CPMF, a provisory contribution levied on certain financial transactions, such as customer's account operations, has not been in force in Brazil since December 31, 2007. In order to replace losses resulting from the elimination of the CPMF, the President has enacted in 2008 several Decrees (i.e., Decree No. 6,339/08, Decree No. 6,345/08, Decree No. 6,391, Decree No. 6,453, Decree No. 6,566, Decree No. 6,613/08, Decree No. 6,691/08, Decree No. 6,983/09 and Decree No. 7,011/09) amending Decree No. 6,306/07 and modifying the rates for the IOF, which is levied on credit, currency exchange, insurance and securities transactions. The purpose of these Decrees enacted in 2008 was to increase IOF rates and impose an additional rate for credit, currency exchange and insurance transactions, with some exceptions.

Generally, the IOF is imposed on the following transactions and at the following rates:

Transaction(1)	Maximum legal rate	Present rate(2)
Credit extended by financial institutions and non-financial entities	1.5% per day	Up to 0.0041% per day for loans contracted by legal entities or individuals, limited to 1.5%. An additional 0.38% rate is applicable.
Transactions relating to securities	1.5% per day	0.5% per day for certain investment funds
		0% on transactions with equity securities
		1.0% per day on transactions with fixed income securities and fixed income investment funds limited to certain percentages of the income raised from investments
		1.5% on the assignment of securities to permit the issuance of the Depositary Receipts abroad
Insurance transactions entered into by insurance companies	25.0%	2.38% for health insurance and life insurance
		7.38% for other types of insurance
Foreign exchange transactions	25.0%	0.38% (general rule)
		2.38% on credit card transactions
		0% for inflow and outflow of funds related to loans obtained from abroad
		5.38% for remittances from abroad related to loans that will remain in Brazil for a period less than or equal to 90 days
		0% for interbank transactions
		2.0% for Resolution No. 2,689 investors in the Brazilian financial and capital markets. The flow of funds related to Resolution No. 2,689 investments out of Brazil is subject to a 0% rate.
		0% for revenues related to the export of services transactions

Note:

(1) The transactions mentioned in the table are for illustration purposes and do not reflect an exhaustive list of transactions subject to the IOF.

(2) There are some exemptions or specific cases in which the applicable rate is zero.

Foreign Investment and the Brazilian Constitution

The Brazilian constitution prohibits foreign financial institutions from establishing new branches or subsidiaries in Brazil except when duly authorized by the President of Brazil and by the Central Bank. 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 by the President of Brazil based on national interest or reciprocity. A decree on November 13, 1997, issued in respect of Banco Meridional do Brasil S.A. (our legal predecessor) allows one hundred percent foreign participation in the capital stock of Santander Brasil. Foreign investors may acquire the shares issued by this offering as a result of this decree. In addition, foreign investors may acquire publicly traded non-voting shares of Brazilian financial institutions negotiated on a stock exchange, such as the shares issued by this offering, or depositary receipts offered abroad representing shares without specific authorization.

Regulation of Branches

The Central Bank requires authorization by the Central Bank for operations of branches or subsidiaries of Brazilian financial institutions, including compliance with the requirement that (1) the institution shall have been in operation for at least six years, (2) the institution's paid-up capital and net worth shall meet the minimum levels established in Exhibit II to Resolution No. 2,099 of August 17, 1994, plus an amount corresponding to 300.0% of the minimum paid-up capital and net worth required by Central Bank regulations for commercial banks, and (3) the Brazilian financial institution shall present to the Central Bank a study on the economic and financial viability of the subsidiary, branch or investment.

In addition, the Central Bank will only grant such authorization if the Central Bank has access to information, data and documents relating to the operations and accounting records of the financial institution in which it has a direct or indirect holding abroad. Delay in providing the Central Bank with the required information and documents subjects the relevant financial institution to fines. Furthermore, the failure by a Brazilian bank to comply with the requirements of Resolution No. 2,723 would imply the deduction of a designated percentage of the assets of such branch or subsidiary from the net worth of such bank for the purpose of calculating such bank's compliance with the capital adequacy requirements of the Central Bank, regardless of other penalties applied pursuant to the applicable regulation, including the cancellation of the authorization by the Central Bank.

Notwithstanding, the Central Bank's prior authorization is also required in order to: (1) allocate new funds to branches or subsidiaries abroad; (2) subscribe capital increases, directly or indirectly, to subsidiaries abroad; (3) increase equity participation, directly or indirectly, in subsidiaries abroad; and/or (4) merge or spin off, directly or indirectly, subsidiaries abroad. The requirements set out in items (1) to (4) are only applicable if such subsidiary is a financial institution or similar entity.

Leasing Regulations

The CMN, in its capacity as regulator and supervisor of the financial system, provides the details set forth in Law No. 6,099, and Resolution No. 2,309 of August 28, 1996, and supervises and controls the transactions entered into by leasing companies. Furthermore, to the extent applicable, the laws and regulations issued by the Central Bank with respect to financial institutions in general, such as reporting requirements, capital adequacy and leverage, asset composition limits and treatment of doubtful loans, are also applicable to leasing companies.

Private Pension Plans

Open-fund private pension plans are subject, for purposes of inspection and control, to the authority of the CNSP and the SUSEP, which are under the regulatory authority of the Ministry of Finance. The CMN, CVM and Central Bank may also issue regulations pertinent to private pension plans, particularly with respect to technical reserves. Open-fund private pension entities must set aside reserves and provisions as collateral for their liabilities. Regulations applicable to pension funds generally do not allow such funds to invest resources abroad.

Banking Consumer Defense Code

CMN Resolutions No. 3,694 and 3,695, both dated March 26, 2009, established procedures with respect to prevention of risks of financial transactions and services provided by financial institutions to customers 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. This regulation consolidates all the previous related rules.

The principal aspects of the above-mentioned rules are described below:

- financial institutions must ensure that customers are fully aware of all contractual clauses, including responsibilities and penalties applicable to both parties, providing timely copies of contracts, receipts, extracts and other documents related to transactions and services rendered in order to enable customers to freely take their decisions;

- financial institutions must adopt in all contracts and related documents clear wording, which is not misleading, adequate on the complexity and nature of the transaction or service rendered, in order to enable the understanding of the content and identification of terms, amounts, charges, penalties, dates, places and other conditions;

- financial institutions are prohibited from refusing or hindering customers and users of their products and services access to conventional channels of assistance, including cashier services (personal counter assistance), even in cases of alternative electronic assistance;

- financial institutions are prohibited to postpone withdrawals up to R$5,000. For higher amounts, financial institutions may postpone the transaction to the next business day; and

- financial institutions are prohibited from making debits from deposit accounts without prior authorization from the customer. Financial institutions must follow solicitations of cancellation of the authorization mentioned herein, unless if arising from credit transactions entered into by and between the customer and said financial institution.

In addition to the aforementioned procedures, the Federal Supreme Court decided on June 7, 2006 that relationships between consumers and financial institutions must be regulated by Law No. 8,078, dated September 11, 1990 (the Brazilian Consumer Code), which grants consumers certain rights that facilitate their defense in court, such as the possibility of the reverse burden of proof, and defines limits for bank interest rates deemed abusive. Financial institutions must fully comply with the measures set forth in the Brazilian Consumer Code.

Cayman Islands Banking Regulation

Banks and trust companies wishing to carry on business from within the Cayman Islands must be licensed by the Cayman Islands Monetary Authority under the Banks and Trust Companies Law (2009 Revision) (the "Banks and Trust Companies Law"), whether or not such business is actually to be carried on in the Cayman Islands.

Under the Banks and Trust Companies Law, there are two main categories of banking license: a category "A" license, which permits unrestricted domestic and off-shore banking business, and a category "B" license, which permits principally only off-shore banking business. As of December 31, 2009, there were approximately 17 banks holding category "A" licenses and approximately 249 banks holding category "B" licenses. The holder of a category "B" license may have an office in the Cayman Islands and conduct business with other licensees and offshore companies but, except in limited circumstances, may not do banking business locally with the public or residents in the Cayman Islands. Santander has an unrestricted category "B" license.

There are no specific ratio or liquidity requirements under the Banks and Trust Companies Law, but the Cayman Islands Monetary Authority will expect observance of prudent banking practices and the Banks and Trust Companies Law imposes a minimum net worth requirement of an amount equal to CI$400,000 (or, in the case of licensees holding a restricted category "B" or a restricted trust license, CI$20,000).

Insurance Regulation

The Brazilian insurance system is governed by three regulatory agencies: the Brazilian Private Insurance Council (*Conselho Nacional de Seguros Privados*), or "CNSP", the SUSEP and the Supplementary Health Insurance Agency (*Agência Nacional de Saúde Suplementar*), or "ANS." With governmental approval, an insurance company may offer all types of insurance with the exception of workers' compensation insurance, which is provided exclusively by the National Institute of Medical Assistance and Social Welfare (*Instituto Nacional de Seguridade Social*), or INSS. Insurance companies sell policies through qualified brokers. In accordance with Brazilian insurance legislation, health insurance must be sold separately from other types of insurance by a specialized insurance company that is subject to the rules of the ANS, the agency responsible for private health insurance.

Insurance companies must set aside reserves to be invested in specific types of securities. As a result, insurance companies are among the main investors in the Brazilian financial market and are subject to the rules of the CMN regarding the investment of technical reserves.

Insurance companies are exempt from ordinary bankruptcy procedures and instead are subject to a special procedure administered by the SUSEP, or by the ANS, the insurance sector regulators, except when the assets of the insurance company are not sufficient to guarantee at least half of the unsecured credits or procedures relating to acts that may be considered bankruptcy-related crimes. Dissolutions may be either voluntary or compulsory. The Minister of Finance is responsible for the institution of compulsory dissolutions of insurance companies under the SUSEP's regulation and ANS is responsible for the dissolution of health insurance companies.

There is currently no restriction on foreign investments in insurance companies.

According to Brazilian law, insurance companies must buy reinsurance to the extent their liabilities exceed their technical limits under the SUSEP rules. For several years, reinsurance activities in Brazil were carried out on a monopoly basis by IRB — Brasil Resseguros S.A., or IRB. On January 16, 2007, Complementary Law No. 126/07 came into force, providing for the opening of the Brazilian reinsurance market to other reinsurance companies. This complementary law specifically establishes new policies related to reinsurance, retrocession and its intermediation, coinsurance operations, hiring of insurance products abroad and insurance sector foreign currency operations.

The main changes introduced by Complementary Law No. 126/07 are summarized below. Three types of reinsurers are established by such law:

- *local reinsurer*. Reinsurer with head office in Brazil, incorporated as a corporation (*sociedade por ações*) and having as exclusive purpose the performance of reinsurance and retrocession transactions;

- *admitted reinsurer*. Non-resident reinsurer, registered with the SUSEP to carry out reinsurance and retrocession transactions, with a representative office in Brazil, which complies with the requirements of Complementary Law No. 126/07 and the applicable rules regarding reinsurance and reassignment of reinsurance activities; and

- *eventual reinsurer*. Non-resident reinsurer, registered with the SUSEP to carry out reinsurance and retrocession transactions, without a representative office in Brazil, which complies with the requirements of Complementary Law No. 126/07 and the applicable rules regarding reinsurance and retrocession activities.

Eventual reinsurer must not be a resident in a country considered as a tax-haven jurisdiction, which does not tax income or tax it at a rate 20.0% below or which does not disclose information about shareholding structure.

Admitted or eventual reinsurers must comply with the following minimum requirements:

- to be duly incorporated, according to the laws of their countries of origin, in order to underwrite local and international reinsurance in the fields that they intend to operate in Brazil and present evidence that they have carried out their operations in their respective countries of origin for at least five years;

- to have economic and financial capacity not inferior to the minimum to be established by CNSP;

- to have a rating issue by rating agencies recognized by the SUSEP equal to or higher than the minimum to be established by CNSP;

- to have a duly appointed resident attorney-in-fact in Brazil with full administrative and judicial powers; and

- to comply with additional requirements to be established by CNSP and the SUSEP.

In addition to the requirements mentioned above, admitted reinsurer must keep a foreign currency account with the SUSEP and periodically submit to such regulatory agency their financial statements, pursuant to the rules to be enacted by CNSP.

The contracting of reinsurance and retrocession in Brazil or abroad shall occur either through direct negotiation between the involved parties or an authorized broker. Foreign reinsurance brokers may be authorized to operate in Brazil, according to the law and additional requirements to be established by the SUSEP and CNSP.

Reinsurance operations relating to survival life insurance and private pension plans are exclusive of local reinsurers. With due observance of the rules to be enacted by CNSP, insurance companies when transferring their risks in reinsurance will have to offer to local reinsurers the following percentage of said risks (right of first refusal):

- 60.0% until January 16, 2010; and
- 40.0% in the subsequent years.

The technical reserves funds of local reinsurers and the funds deposited in Brazil for purposes of guaranteeing admitted reinsurers local activities will be managed according to the rules of the CMN. IRB continues to be authorized to carry out reinsurance and retrocession activities in Brazil as a local reinsurer.

MANAGEMENT

We are managed by a board of directors (*conselho de administração*) and an executive board (*diretoria*). We also have an audit committee, which is a statutory body created and functioning in accordance with Central Bank rules.

Board of Directors

The board of directors is comprised of a minimum of five members and a maximum of twelve members, of which at least 20.0% must be independent directors, who serve two-year terms and meet four times a year and as often as required by the chairman of the board of directors. The board of directors is responsible for, among other matters, the establishment of our short- and long-term policies. The annual general shareholders' meeting is held within the first four months of each fiscal year. This meeting approves the financial statements for the previous year and elects the members of the board of directors.

The current members of the board of directors, as approved by the Central Bank, were appointed at a shareholders' meeting held on September 2, 2009. On February 2, 2010 our shareholders appointed three new members to our board of directors. The election of Mr. Celso Clemente Giacometti is subject to Central Bank's approval. Until then he is not authorized to act as a director on our behalf. The term of the members of the board of directors will expire at the shareholders' meeting to be held in 2011.

As a result of the execution of an agreement to join the Level 2 segment of BM&FBOVESPA and of our adherence to the Level 2 rules, our elected directors have executed and the new members of the board of directors shall execute an instrument of adherence to this regulation and our agreement with BM&FBOVESPA prior to taking office.

The following table presents the names and positions of the current members of the board of directors as approved by the Central Bank:

Name	Position	Date of Birth
Marcial Angel Portela Alvarez	Chairman	March 23, 1945
Fábio Colletti Barbosa	Vice Chairman	October 3, 1954
José Antonio Alvarez Alvarez	Member	January 6, 1960
José Manuel Tejón Borrajo	Member	July 11, 1951
José Roberto Mendoça de Barros	Independent Member	February 7, 1944
Viviane Senna Lalli	Independent Member	June 14, 1957

The following table presents the names and positions of the members of the board of directors elected at our shareholders' meeting on February 2, 2010.

Name	Position	Date of Birth
José de Paiva Ferreira	Member	March 1, 1959
José de Menezes Berenguer Neto	Member	September 10, 1966
Celso Clemente Giacometti(*)	Independent Member	October 13, 1943

(*) Pending Central Bank's approval.

Set forth below are biographies of the members of our board of directors.

Fábio Colletti Barbosa. Mr. Barbosa is Brazilian and was born on October 3, 1954. He holds a bachelor's degree in business economics science from Fundação Getúlio Vargas in São Paulo and an MBA from the Institute for Management and Development in Lausanne. As the vice chairman of our board and our president, he is responsible for our company's strategy in Brazil. Mr. Barbosa has been engaged in the money market for 23 years. He was the chairman of the board of directors of Banco ABN AMRO Real S.A. from 1996 to 2009. Mr. Barbosa joined Banco ABN AMRO Real S.A. in 1995 as head of corporate banking and finance and, during the period from 1996 to 1998, was in charge of Banco Real's strategy in Brazil. Currently, he is the president of Banco Santander (Brasil) S.A. and an executive officer of Companhia Real de Valores — Distribuidora de

Títulos e Valores Mobiliários, . He is member of the board of directors of Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A., Santander Leasing S.A. —Arrendamento Mercantil and Real Microcrédito Assessoria Financeira S.A. Mr. Barbosa is also a member of the Board of Directors of Petróleo Brasileiro S.A. —Petrobrás, president of the Brazilian Banking Federation —FEBRABAN and member of the Social and Economic Development Council of the Presidency of Brazil. Mr. Barbosa's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Marcial Angel Portela Alvarez. Mr. Portela is Spanish and was born on March 23, 1945. He holds a bachelor's degree in political science from the Universidad de Madrid in Spain and a master's degree in sociology from the University of Louvain in Belgium. He is currently the executive vice president of Banco Santander, S.A., where he is responsible for all of the Latin American operations. He is a member of the board of directors of Banco Santander Mexico S.A. and vice president of Banco Santander Chile S.A. He started at Banco Santander as the executive vice president responsible for technology, operations, human resources and efficiency programs. In 1998 he worked for Comunitel, S.A. in Spain and from 1996 to 1997 he served as president of Telefonica International and from 1992 to 1996 he served as member of the board of directors of Telefonica S.A. (Spain). From 1991 to 1996 he served as administrator for Corporación Bancaria España, S.A. —Argentaria and as the chairman of the board of directors of Banco Español de Crédito S.A. Banesto. From 1990 to 1991 he worked for Banco Exterior de España, S.A. in Spain. In September 2009 he was elected as a member of the board of directors of Banco Santander (Brasil) S.A. Mr. Portela's business address is Costa Brava, 49, 7th Floor, 280034, Madrid, Spain.

José Antonio Alvarez Alvarez. Mr. Alvarez is Spanish and was born on January 6, 1960. He holds a bachelor's degree in business economics science from the Universidad Santiago de Compostela in Spain and an MBA from the University of Chicago's Graduate School of Business. He started at Banco Santander, S.A. in Spain in 2002 as the head of finance management and in November 2004 was named chief financial officer. He served as financial director of BBVA (Banco Bilbao Vizcaya Argentaria, S.A.) in Spain from 1999 to 2002 and as financial director of Corporación Bancaria de España, S.A. (Argentaria) from 1995 to 1999. He was also chief financial officer for Banco Hipotecario, S.A. in Spain from 1993 to 1995 and vice president of Finanpostal Gestión Fondos de Inversión y Pensiones from 1990 to 1993. In September 2009, he was elected as a member of the board of directors of Banco Santander (Brasil) S.A. He was a member of the board of directors of Banco de Crédito Local S.A. from 2000 to 2002 and is a member of the board of directors of Santander Consumer Finance, S.A., the chairman of Santander de Titulización, SGFT, S.A., a member of the board of directors of Bolsa de Mercados Españoles, S.A. (BME) and a member of the board of directors of Santander Global Property, S.L. Mr. Alvarez's business address is Pereda, 1st Floor, 28660 Boadilla del Monte, Madrid, Spain.

José Manuel Tejón Borrajo. Mr. Tejon is Spanish and was born on July 11, 1951. He holds a bachelor's degree in economics from the Universidad Complutense de Madrid in Spain. He started at Banco Santander, S.A. in Spain in 1989 as head of general audit and since 2004 he has been responsible for the general audit division and administration control. Within Grupo Santander, he also serves as the president of the board of directors of Banco de Albacete, S.A., the president of the board of directors of Cantabro Catalana de Inversiones, S.A., a member of the board of directors of Santander Investment, S.A., the vice president of the board of directors of Santander Investment I, S.A., director of Santander Holding Internacional, S.A., director of Santusa Holding, S.L., vice president of the board of directors of Santander Holding Gestión, S.L., president of the board of directors of Administración de Bancos Latinoamericanos Santander, S.L., president of the board of directors of Grupo Empresarial Santander, S.L. In September 2009 he was elected as a member of the board of directors of Banco Santander (Brasil) S.A. Mr. Tejon's business address is Edificio Amazonia, 1st Floor, 28660 Boadilla del Monte, Madrid, Spain.

José Roberto Mendonça de Barros. Mr. Mendonça is Brazilian and was born on February 7, 1944. He holds a bachelor's degree, post-graduate and doctorate degree in economics from the University of São Paulo and a post-doctorate degree in economics from Yale University. He is currently a member of the board of directors of BM&FBOVESPA and Tecnisa, a member of the advisory board of Pão de Açúcar, of Grupo O Estado de São Paulo, of FEBRABAN, of Schneider Electric and of Link Partners. He is also a member of the consulting chamber of the Novo Mercado of BM&FBOVESPA. In September 2009, he was elected as an independent member of the board of directors of Banco Santander (Brasil) S.A. He was a member of the board of directors of GP Investments, of Fosfertil/Ultrafertil, Varig Participações em Transportes Aéreos, Economia da FIESP, Companhia Energética de São Paulo, Electricidade de São Paulo, Companhia Paulista de Força e Luz and Companhia de Gás de São Paulo. Mr. Mendonça's business address is Avenida Brigadeiro Faria Lima, 1739, 5th Floor, São Paulo, SP 01310-916, Brazil.

Viviane Senna Lalli. Ms. Senna is Brazilian and was born on June 14, 1957. She holds a bachelor's degree in psychology from the Pontifícia Universidade Católica in São Paulo. From 1981 to 1996, she worked as a psychotherapist of adults and children. In September 2009 she was elected as an independent member of the board of directors of Banco Santander (Brasil) S.A. She is also a member of the board of President Luiz Inácio Lula da Silva (CDES), of the advisory board of Febraban and Citibank Brasil, of the board of education of CNI and FIESP, of the boards of Institutos Coca-Cola, Energias do Brasil, ADVB e Todos pela Educação and of the orientation and social investment committees of Banco Itaú and Unibanco. Ms. Senna's business address is Rua Dr. Olavo Egídio, 287, 16th floor, São Paulo, SP 01310-916, Brazil.

José de Menezes Berenguer Neto. Mr. Berenguer is Brazilian and was born on September 10, 1966. He graduated in 1989 with a law degree from Pontifícia Universidade Católica in São Paulo. As member of our board of directors and our senior vice president, he is responsible for our global wholesale banking operations, including Global Banking & Markets and Treasury, Asset Management and Private Banking. Mr. Berenguer has been engaged in treasury and investment banking for 24 years. He served as a member of the board of the Emerging Markets Traders Association in 1997 and 1998. Mr. Berenguer was a board member of the Stock Exchange of Rio de Janeiro (Bolsa de Valores do Rio de Janeiro) between 2000 and 2002. In 2002, he became a board member of BM&F. He is currently an executive director of FEBRABAN, the Brazilian Banking Federation. He is André Fernandes Berenguer's brother. He is also an executive officer of Companhia Real de Valores – Distribuidora de Títulos e Valores Mobiliários, Aymoré Crédito, Financiamento e Investimento S.A., Real CHP S.A. and Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. — BANDEPE). Mr. Berenguer's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

José de Paiva Ferreira. Mr. Ferreira is Portuguese and was born on March 1, 1959. He holds a degree in business administration from Fundação Getúlio Vargas, a post-graduate degree in business from the Fundação Getúlio Vargas and an MBA from the Wharton School of Business. As member of our board of directors and our senior vice president, he is the head of the retail marketing distribution channels and retail products area of Santander Brasil. Mr. Ferreira has been engaged in the money market for 35 years. He started at Banco Bradesco in 1973 and joined Banco Geral do Comércio in 1978 as chief assistant of services and served as an executive vice president/executive director of Banco Geral do Comércio, Santander Noroeste S.A., Banco Meridional and Banco Banespa. He is also an executive officer of Santander Administradora de Consórcios Ltda., Aymoré Crédito, Financiamento e Investimento S.A., Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. — BANDEPE), Santander Brasil Seguros S.A., Santander Seguros S.A. and Santander Capitalização S.A. and Universia Brasil S.A. In addition, he is a member of the board of directors of Universia Brasil S.A. and Real Microcrédito Assessoria Financeira S.A. Mr. Ferreira's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Celso Clemente Giacometti. Mr. Giacometti is Brazilian and was born in October 13, 1943. He holds a degree in business administration from Faculdade de Economia São Luís and graduated with a degree in accounting sciences from Faculdade de Ciências Econômicas de Ribeirão Preto. He started his career in 1960, as an auditor for Citibank. From 1960 to 2000, he was president of Arthur Andersen. He worked for Souto Vidigal Family Office from 2004 to 2006. He is currently a quotaholder for Giacometti Serviços Profissionais Ltda. In February 2010 he was elected as an independent member of the board of directors of Banco Santander (Brasil) S.A. He is also a member of the audit committee of CTEEP – Transmissão Paulista, a member of the board of directors and coordinator of the audit committee of Tarpon Investimentos, Marisa S.A. and LLX Logística and a member of the audit and tax commitees of AMBEV. Mr. Giacometti's business address is Avenida Vereador José Diniz, 3725 – 6th Floor, conj. 61 - São Paulo, SP – CEP 04641-000, Brazil.

Executive Officers

Our executive officers are responsible for the management and representation of our bank. The following table sets forth the names, positions and dates of birth of our executive officers. Certain of our executive officers are also members of the board of executive officers and boards of directors of our subsidiaries.

Name	Position	Date of Birth
Fábio Colletti Barbosa(*)	President	October 3, 1954
José de Menezes Berenguer Neto(*)	Executive Senior Vice President	September 10, 1966
José de Paiva Ferreira(*)	Executive Senior Vice President	March 1, 1959
Angel Oscar Agallano(*)	Executive Vice President	March 18, 1957
Carlos Alberto López Galán(*)	Executive Vice President	November 6, 1962
Gustavo José Costa Roxo da Fonseca(*)	Executive Vice President	February 4, 1967
João Roberto Gonçalves Teixeira(*)	Executive Vice President	May 30, 1965
Oscar Rodrigues Herrero(*)	Executive Vice President	October 4, 1971
Pedro Paulo Longuini(*)	Executive Vice President	June 7, 1957
Arnaldo Penteado Laudisio	Executive Officer	August 17, 1963
Fernando Byington Egydio Martins	Executive Officer	January 7, 1957
Francisco Di Roberto Junior	Executive Officer	December 28, 1952
Javier Fonseca Viader	Executive Officer	January 17, 1972
José Roberto Machado Filho	Executive Officer	August 25, 1968
Lilian Maria Ferezim Guimarães	Executive Officer	August 26, 1960
Luciane Ribeiro	Executive Officer	June 7, 1963
Luís Felix Cardamone Neto	Executive Officer	March 16, 1964
Marco Antonio Martins de Araújo Filho	Executive Officer	June 19, 1965
Marcos Matioli de Souza Vieira	Executive Officer	January 4, 1961
Maria Luiza de Oliveira Pinto e Paiva	Executive Officer	July 14, 1963
Pedro Carlos Araújo Coutinho	Executive Officer	April 2, 1966
Wagner Augusto Ferrari	Executive Officer	August 7, 1958
Alexandre Schwartsman	Officer	February 7, 1963
Amancio Acúrcio Gouveia	Officer	March 31, 1963
André Fernandes Berenguer	Officer	January 13, 1968
Antonio Fernando Laurelli Ribeiro	Officer	April 17, 1958
Antonio Pardo de Santayana Montes(**)	Officer	April 17, 1958
Carlos Leibowicz	Officer	December 31, 1970
Cassius Schymura	Officer	February 19, 1965
Ede Ilson Viani	Officer	September 5, 1967
Eduardo Müller Borges	Officer	September 12, 1967
Flávio Tavares Valadão	Officer	July 1, 1963
Gilberto Duarte de Abreu Filho	Officer	August 7, 1973
Jamil Habibe Hannouche	Officer	June 23, 1960
João Batista Videira Martins	Officer	March 1, 1957
João Guilherme de Andrade Só Consiglio	Officer	December 7, 1968
Joel Michael Roberto	Officer	October 27, 1969
Luiz Felipe Taunay Ferreira	Officer	March 18, 1967
Luiz Fontoura de Oliveira Reis Filho	Officer	July 10, 1968
Marcio Aurelio de Nobrega	Officer	August 23, 1967
Marcos Adriano Ferreira Zoni	Officer	December 10, 1964
Maria Eugênia Andrade Lopez Santos	Officer	January 23, 1966
Mauro Siequeroli	Officer	March 24, 1957
Nilo Sérgio Silveira Carvalho	Officer	February 26, 1961
Ramón Sanchez Díez	Officer	October 29, 1968
Reginaldo Antonio Ribeiro	Officer	May 19, 1969
Roberto Correa Barbuti	Officer	August 26, 1968
Sergio Golçalves	Officer	August 7, 1956

(*) Member of the executive committee, which is a non-statutory committee involved in making policy decisions related to business management and operational support, human resources, allocation of capital and major technological, infrastructure and services projects.

(**) Member whose appointment is subject to obtaining a Brazilian permanent visa, until which time such individual is not authorized to act as an executive officer of the Bank.

Set forth below are biographies of our executive officers who are not also members of our board of directors.

Angel Oscar Agallano. Mr. Agallano is Argentinean and was born on March 18, 1957. He holds a degree in senior management from the Escuela de Dirección e Negócios (IAE) of the Universidad Austral de Argentina. As one of our executive vice presidents, he has been the head of operations and technology for Santander in Brazil since 2004 and was responsible for the integration of Banco ABN AMRO Real S.A. and Banco Santander (Brasil) S.A. Mr. Agallano has been engaged in the money market for 33 years. He started at Santander in Buenos Aires, Argentina in 1986. From 1997 to 2000, Mr. Agallano was a member of the board of Santander in Argentina and from 2002 to 2003 he acted as a member of the Santander Venezuela board. He is also an executive officer of Aymoré Crédito, Financiamento e Investimento S.A., Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. — BANDEPE), Santander Administradora de Consórcios Ltda., Santander Brasil Seguros S.A., Santander Seguros S.A., Santander Capitalização S.A., and Agropecuária Tapirapé S.A. Mr. Agallano's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Carlos Alberto López Galán. Mr. Galán is Spanish and was born on November 6, 1962. He holds a bachelor's degree in business economics science from Universidad Autónoma de Madrid in Spain and a master's degree in financial markets from Universidad Pontifícia Comillas in Spain. As one of our executive vice presidents, he is the investor relations and chief financial officer of Banco Santander (Brasil) S.A. Mr. Galán has been engaged in the money market for 22 years. He started at the Santander Group as an analyst in November 1986 and in 1995 he became the controller for Santander Financial Products. From July 1997 to January 1999, he served as vice president of Santander Investment México. Mr. Galán also served from July 1999 to August 2006 as chief financial officer and operating officer and a board member for the following companies: Santander Brasil, Afore, Gestora, Aseguradora, Casa de Bolsa and Universia. Currently, he serves as a board member for the Grupo Financiero Santander Serfin and for the following companies: Altec, Universia, Proaquanima, Banco Santander Serfin, Casa de Bolsa, Afore S.S., Gestora S.S. and Aseguradora S.S. In 2006, Mr. Galán was transferred to Santander Brasil as chief financial officer and has been one of our vice presidents since then. He is also an executive officer of Aymoré Crédito, Financiamento e Investimento S.A., Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. —BANDEPE), Santander Administradora de Consórcios Ltda., Santander Leasing S.A. Arrendamento Mercantil, Agropecuária Tapirapé S.A. and Norchem Participações e Consultoria S.A. He is also member of the board of directors of Companhia de Arrendamento Mercantil RCI Brasil (formerly named Companhia de Arrendamento Mercantil Renault do Brasil) and Companhia de Crédito, Financiamento e Investimento RCI Brasil (formerly named Companhia de Crédito, Financiamento e Investimento Renault do Brasil). Mr. Galán's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Gustavo José Costa Roxo da Fonseca. Mr. Fonseca is Brazilian and was born on February 4, 1967. He holds a master's degree in electrical engineering from Escola Politécnica da Universidade de São Paulo and an MBA from the MIT Sloan School of Management in Cambridge, Massachusetts. As one of our executive vice presidents, he is responsible for operations and information technology. Mr. Fonseca has been engaged in the information technology area for 18 years. He was a software engineer at the Brazilian Navy in the advanced research center from 1991 through 1993 and a project manager of Sectrum Consultoria from 1993 through 1997 and worked in the information technology area of Banco ABN AMRO Real S.A. Currently, he is also an executive officer of Aymoré Crédito, Financiamento e Investimento S.A., Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. —BANDEPE), Santander Brasil Administradora de Consórcio Ltda. (formerly named ABN AMRO Real Administradora de Consórcio Ltda.), Santander Administradora de Consórcios Ltda., Santander Leasing S.A. Arrendamento Mercantil, Santander Brasil Seguros S.A., Santander Seguros S.A., Santander Capitalização S.A., Webmotors S.A. and Celta Holdings S.A. He is also member of the board of directors of Real Microcrédito Assessoria Financeira S.A., Isban Brasil S.A., Companhia de Arrendamento Mercantil RCI Brasil (formerly named Companhia de Arrendamento Mercantil Renault do Brasil), Companhia de Crédito, Financiamento e Investimento RCI Brasil (formerly named Companhia de Crédito, Financiamento e Investimento Renault do Brasil) and Tecnologia Bancária S.A. Mr. Fonseca's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 004543-011, Brazil.

João Roberto Gonçalvez Teixeira. Mr. Teixeira is Brazilian and was born on May 30, 1965. He holds an MBA from the London Business School and a master's degree in economics from Pontifícia Universidade Católica in Rio de Janeiro. As one of our executive vice presidents, he is responsible for corporate and investment banking. Mr. Teixeira has been engaged in the money market for 15 years. He served as a special advisor of the Ministry of Treasury in 1993 and was head of foreign affairs for the Brazilian Secretary of Political Economics. Mr. Teixeira was a managing director of Dresdner Kleinwort Wasserstein from 1994 through 2002 and has been in the Santander Group ever since. Currently, he is an executive officer of REB Empreendimentos e Administradora de Bens S.A. He is also member of the board of directors of Santander Leasing S.A. Arrendamento Mercantil. Mr. Teixeira's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Oscar Rodriguez Herrero. Mr. Rodriguez is Spanish and was born on October 4, 1971. He holds a bachelor's degree in business administration from the Colégio Universitário de Estúdios Financieros in Madrid, Spain and an MBA from Northwestern University's Kellogg School of Management in Chicago, Illinois. As one of our executive vice presidents, he is the head of our risk management area. Mr. Rodriguez has been engaged in the money market for 15 years. He served as an analyst of credit risk of Santander Investment in Spain from 1994 to 1998. He was a consultant at McKinsey & Co in the United States and Spain from 2000 to 2004. Mr. Rodriguez also served as credit risk director of the wholesale banking and corporate areas of Banco Santander (Brasil) S.A. from 2004 to 2006. Currently, he is an executive officer of Aymoré Crédito, Financiamento e Investimento S.A. and Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. — BANDEPE). He is also member of the board of directors of Companhia de Arrendamento Mercantil RCI Brasil (formerly named Companhia de Arrendamento Mercantil Renault do Brasil) and Companhia de Crédito, Financiamento e Investimento RCI Brasil (formerly named Companhia de Crédito, Financiamento e Investimento Renault do Brasil). Mr. Rodriguez's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Pedro Paulo Longuini. Mr. Longuini is Brazilian and was born on June 7, 1957. He holds a degree in mechanical engineering from Instituto Tecnológico de Aeronáutica. As one of our executive vice presidents, he is in charge of Corporate Affairs, including the legal department and compliance. Mr. Longuini has been engaged in the money market for 24 years. He was a vice president of Citibank S.A. from 1985 through 1996. Mr. Longuini joined Banco ABN AMRO Real S.A. in 1996 as controller and in 1999 became the executive officer of operations and financial control. Mr. Longuini was vice president of Banco ABN AMRO Real from 2003 to 2009 and is vice president of Banco Santander (Brasil) S.A. Currently, he is also an executive officer of Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. —BANDEPE), Companhia Real de Valores — Distribuidora de Títulos e Valores Mobiliários, Santander Leasing S.A. Arrendamento Mercantil, Aymoré Crédito, Financiamento e Investimento S.A., Santander Administradora de Consórcios Ltda., Santander Brasil Administradora de Consórcio Ltda. (formerly named ABN AMRO Real Administradora de Consórcio Ltda.), Santander Brasil Seguros S.A., Santander Seguros S.A., Santander Capitalização S.A., Santander Advisory Services S.A., Agropecuária Tapirapé S.A., Isban Brasil S.A., Universia Brasil S.A. and Norchem Participações e Consultoria S.A. He is also member of the board of directors of Santander Leasing S.A. Arrendamento Mercantil, Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A., Companhia de Arrendamento Mercantil RCI Brasil (formerly named Companhia de Arrendamento Mercantil Renault do Brasil) and Companhia de Crédito, Financiamento e Investimento RCI Brasil (formerly named Companhia de Crédito, Financiamento e Investimento Renault do Brasil). Mr. Longuini's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Arnaldo Penteado Laudisio. Mr. Laudisio is Brazilian and was born on August 17, 1963. He holds a law degree from the Universidade de São Paulo. As one of our executive directors, he is the head of our litigation legal department. Mr. Laudisio has been engaged in the legal profession for 24 years. He was a partner of Goulart Penteado, Lervolino e Lefosse Advogados from 2000 through 2006. Currently, he is also an executive officer of Santander Administradora de Consórcios Ltda. Mr. Laudisio's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Fernando Byington Egydio Martins. Mr. Martins is Brazilian and was born on January 7, 1957. He holds a degree in business administration from Fundação Armando Alvares Penteado. As one of our executive directors, he is responsible for trademark strategy and corporative communication. Mr. Martins has been engaged in the money market for 30 years. He was the chief of the business and foreign relations department of Banco Itaú S.A. from 1985 through 1986. He managed his own clothing business at Mahay Ltda. From 1986 through 1987, and was an officer of Metroplan from 1987 through 1992. He was an officer of Banco ABN AMRO Real S.A. from 1992 to 2009 and is executive officer of Banco Santander (Brasil) S.A.. Currently he is an executive officer of Santander Administradora de Consórcios Ltda., Santander Brasil Administradora de Consórcio Ltda. (formerly named ABN AMRO Real Administradora de Consórcio Ltda.), Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. —BANDEPE), Aymoré Crédito, Financiamento e Investimento S.A., Santander Leasing S.A. Arrendamento Mercantil. Mr. Martins's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 18th Floor, São Paulo, SP 04543-011, Brazil.

Francisco Di Roberto Junior. Mr. Di Roberto is Brazilian and was born on December 28, 1952. He holds a degree in business administration from Fundação Mineira de Educação e Cultura. As our executive director, he is responsible for private banking. Mr. Di Roberto has been engaged in the money market for 29 years. He was a credit analyst, banking relations manager and treasurer of Du Pont do Brasil S.A. from 1980 through 1985, assistant vice president from 1985 through 1986, vice president of corporate banking of Citibank, N.A. from 1986 through 1990 and vice president of Citicorp Investment Bank — International Corporate Finance Division NY from 1990 through 1992. From 1992 to 1995, Mr. Di Roberto was a corporate banking director at Citibank S.A. In 1995, he started as corporate banking director in Banco ABN AMRO S.A. and Banco ABN AMRO Real S.A. until 2001. From 2001 through 2004, he was a senior vice president at ABN AMRO in Miami, from 2005 until 2006 he was a president in Uruguay of Banco ABN AMRO S.A. From 2006 to 2008, he was the head of Spanish speaking countries in Banco ABN AMRO Real S.A. Currently he is also an executive officer of Santander Advisory Services S.A. Mr. Di Roberto's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 18th Floor, São Paulo, SP 04543-011, Brazil.

Javier Fonseca Viader. Mr. Viader is Spanish and was born on January 17, 1972. He holds a degree in business administration from Universidad Antonio de Nebrija in Madrid. As our executive director, he has been responsible for internal audit for Banco Santander (Brasil) S.A. since 2005. Mr. Viader has been engaged in internal audit for 13 years. He started his career at the Santander Group in 1996. Mr. Viader's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 10th Floor, São Paulo, SP 04543-011, Brazil.

José Roberto Machado Filho. Mr. Machado is Brazilian and was born on August 25, 1968. He holds a degree in electrical engineering from Faculdade de Engenharia Industrial (FEI) in São Paulo and has a master's degree in business, economics and finance from the Universidade de São Paulo. As one of our executive directors, he is responsible for real estate finance and mortgage credit. Mr. Machado has been active in the treasury business for 17 years. He was an engineer for Keumkang Limited from 1990 through 1991, a foreign exchange manager from 1992 through 1995 and a manager of emerging markets trading desk from 1992 through 1996 of Banco CCF Brasil S.A. He was also an executive officer of Banco Rabobank Internacional Brasil S.A. from 1998 through 2003 and was an executive officer of Banco ABN AMRO Real S.A. from 2003 to 2009. Currently, he is an executive officer of Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. — BANDEPE) and Companhia Real de Valores — Distribuidora de Títulos e Valores Mobiliários He is also member of the board of directors of Companhia Brasileira de Securitização — Cibrasec. Mr. Machado's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 15th Floor, São Paulo, SP 04543-011, Brazil.

Lilian Maria Ferezim Guimarães. Ms. Guimarães is Brazilian and was born on August 26, 1960. She holds a degree in business administration from the Fundação Getulio Vargas, a specialization degree in human resources also from the Fundação Getulio Vargas and a specialization degree in business administration from Fundação Dom Cabral and she holds a post-graduate degree in hotel administration from Senac, São Paulo. As one of our executive directors, she is responsible for the development and implementation of human resources policies. Ms. Guimarães has been engaged in the human resources area for 26 years. She was an analyst of employee compensation for Unibanco — União de Bancos Brasileiros S.A. from 1984 through 1986, a compensation manager for Citibank S.A. from 1986 through 1991, a finance consultant of Hay do Brasil Consultores Ltda. from 1991 through 1993, a manager of human resources development of Banco

Nacional S.A. from 1993 through 1995, a human resources director for Banco Inter-Atlantico from 1996 through 1997, a human resources director of Origin Brasil from 1997 through 2000 and the human resources director of Banco ABN AMRO Real S.A. from 2000 to 2006. Currently, she is an executive officer of Banco Santander (Brasil) S.A. and the head of human resources for the Santander Brasil Group. She is also executive officer of Universia Brasil S.A. Ms. Guimarães's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Luciane Ribeiro. Ms. Ribeiro is Brazilian and was born on June 7, 1963. She holds a degree in economics from Fundação Armando Alvares Penteado. As one of our executive directors, she is currently responsible for Santander Brasil asset management operations. Ms. Ribeiro has been engaged in the banking market for 25 years. She started at BankBoston in 1983 and in 1985 she began working for Banco Safra S.A., and served as an investment advisor from 1996 to 1999. She was an officer of Banco J. Safra S.A. from 1999 to 2002 and an executive officer of Safra Asset Management since 2002. She started working for Banco ABN AMRO Real S.A. S.A. in 2006 as a securities portfolio manager. Currently, she is also President of Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A. She is also member of the board of directors of Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A. and President of the management council of Ethical Fund. She is also a coordinator of the Database subcommission and of the investment funds commission of ANBID and a member of the asset management committee of ANDIMA and of the communication committee of IBGC. Ms. Ribeiro's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 235, 18th Floor, São Paulo, SP 04543-011, Brazil.

Luis Felix Cardamone Neto. Mr. Cardamone is Brazilian and was born on June 19, 1965. He studied business administration at Fundação Lusíada — Faculdade de Administração de Empresas de Santos. As one of our executive directors, he is responsible for management of the open market. Mr. Cardamone has been engaged in the money market for 27 years. He was a sales assistant of Banco Antônio de Queiroz from 1982 through 1985, manager of Banco Comind in 1985 and chief in administration services and manager of Banco Itaú S.A. from 1985 through 1987, was at Banco ABN AMRO Real S.A. from 1988 to 2009 and is executive officer of Banco Santander (Brasil) S.A.. Currently, he is also an executive officer of Aymoré Crédito, Financiamento e Investimento S.A., Companhia de Arrendamento Mercantil RCI Brasil (formerly named Companhia de Arrendamento Mercantil Renault do Brasil), Companhia de Crédito, Financiamento e Investimento RCI Brasil (formerly named Companhia de Crédito, Financiamento e Investimento Renault do Brasil), Santander Administradora de Consórcio Ltda., Santander Brasil Administradora de Consórcio Ltda. (formerly named ABN AMRO Real Administradora de Consórcio Ltda.), Webmotors S.A. and Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. — BANDEPE). He is also member of the board of directors of Companhia de Arrendamento Mercantil RCI Brasil (formerly named Companhia de Arrendamento Mercantil Renault do Brasil) and Companhia de Crédito, Financiamento e Investimento RCI Brasil (formerly named Companhia de Crédito, Financiamento e Investimento Renault do Brasil). Mr. Cardamone's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 15th Floor, São Paulo, SP 04543-011, Brazil.

Marco Antonio Martins de Araújo Filho. Mr. Araújo is Brazilian and was born on June 19, 1965. He holds a law degree from the Universidade de Brasília (1987) and an LLM in international business and trade law from Fordham University in New York, New York (1992). He is licensed to practice law in Brazil (1988) and in the State of New York, United States (Appellate Division, 2nd Department — 1993). Mr. Araújo has been engaged in the legal area for more than 20 years. He was a partner at Araújo & Castro Advogados in 1988, a parliamentary advisor from 1989 to 1991 and a senior lawyer for Banco Itaú BBA S.A. from 1994 to 2003. He joined ABN AMRO in 2003, and was ABN AMRO's Latin America General Counsel and an executive director of Banco ABN AMRO Real S.A., covering eight countries in Latin America, including Brazil. In 2008, Mr. Araujo became an executive director of Banco Santander (Brasil) S.A. He heads the legal department on transactional and corporate matters. Mr. Araujo's team supports all commercial areas of the bank and handles the corporate work relating to companies of the Santander Brasil Group (joint ventures, acquisitions, divestments, preparation and monitoring of minutes, general shareholders' meetings). In 2007, the Brazilian Minister of Finance appointed Mr. Araujo as a council member to the Brazilian Financial System Administrative Court of Appeals, or "CRSFN", where he currently holds the Vice-President chair. Currently, he is also an executive officer of REB Empreendimentos e Administradora de Bens S.A. Mr. Araújo's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Marcos Matioli de Souza Vieira. Mr. Vieira is Brazilian and was born on January 4, 1961. He holds a degree in business administration from Fundação Getúlio Vargas. As one of our executive directors, he is responsible for corporate development and private equity. Mr. Vieira has been active in the banking market for 26 years. He was an analyst for Banco Chase Manhattan from 1983 to 1986 and a finance manager of L.E. Ind. e Com Ltda. from 1986 to 1987. He started as a credit manager for Banco ABN AMRO Real S.A. in 1987 and was an executive director of Banco ABN AMRO Real S.A. from 1998 to 2009 and is an executive officer of Banco Santander (Brasil) S.A. Currently, he is also an executive officer of Companhia Real de Valores Distribuidora de Títulos e Valores Mobiliários and Santander Brasil Administradora de Consórcio Ltda. (formerly named ABN AMRO Real Administradora de Consórcio Ltda.). He is also member of the board of directors of Companhia de Arrendamento Mercantil RCI Brasil (formerly named Companhia de Arrendamento Mercantil Renault do Brasil), Companhia de Crédito, Financiamento e Investimento RCI Brasil (formerly named Companhia de Crédito, Financiamento e Investimento Renault do Brasil), Real Microcrédito Assessoria Financeira S.A., Celta Holdings S.A., Companhia Brasileira de Soluções e Serviços S.A. — Visa Vale, Fidelity Processamento e Serviços S.A. and Tecnologia Bancária S.A. Mr. Vieira's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Maria Luiza de Oliveira Pinto e Paiva. Ms. Paiva is Brazilian and was born on July 14, 1963. She holds a degree in psychology from Pontifícia Universidade Católica in São Paulo and has a specialization degree in human resources from the University of Michigan. As one of our executive directors, she is responsible for the creation of our sustainable development area in Santander Brasil and the implementation of the sustainability concept throughout the organization. Ms. Paiva has been engaged in the sustainability area for almost eight years. She was the human resources manager for Banco Nacional S.A. from 1981 to 1994 and for Banco ABN AMRO Real S.A. in the Regional Office for Latin America and the Caribbean and head of the Global Human Resources Department in the Commercial and Consumer clients business in ABN AMRO Bank, NV. She has been our executive officer since 1994. Currently, she is also a member of the board of directors of Real Microcrédito Assessoria Financeira S.A. Ms. Paiva's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Pedro Carlos Araújo Coutinho. Mr. Coutinho is Brazilian and was born on April 2, 1966. He holds a degree in business administration from Instituto Superior de Ciências, Letras e Artes de Três Corações — INCOR — MG, a postgraduate degree in financial administration from Fundação Dom Cabral and an MBA with a focus on marketing from Instituto de Ensino e Pesquisa — INSPER. As one of our executive directors, he is responsible for the points of sale of Banco Santander (Brasil) S.A.. Mr. Coutinho has been engaged in the money market for 25 years. He was responsible for the small and middle companies segment in Banco Nacional S.A. from 1983 to 1995, was a retail manager of Unibanco S.A. from 1995 to 1997 and has been an executive officer of Banco Santander (Brasil) S.A. since 1997. Mr. Coutinho's business address is Av. Presidente Juscelino Kubitschek, 2041 and 2235, 23rd Floor, São Paulo, SP 04543-011, Brazil.

Wagner Augusto Ferrari. Mr. Ferrari is Brazilian and was born on August 7, 1958. He holds a degree in business administration from Instituto Amador Aguiar — Osasco and an MBA from Instituto de Ensino e Pesquisa — INSPER. As one of our executive directors, he is responsible for the retail area. Mr. Ferrari has been engaged in the money market for 25 years. He was the purchase manager for Construtora Gavião Monteiro from 1981 to 1982 and executive officer of Banco ABN AMRO Real S.A. from 1983 to 2009. Currently, he is also a member of the board of directors of Real Microcrédito Assessoria Financeira S.A. Mr. Ferrari's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 23rd Floor, São Paulo, SP 04543-011, Brazil.

Alexandre Schwartsman. Mr. Schwartsman is Brazilian and was born on February 7, 1963. He holds a degree in business administration from the Fundação Getúlio Vargas, a degree in economics from the Universidade de São Paulo, a master's in economics from the Universidade de São Paulo and a Ph.D in economics from the University of California. As one of our officers, he is the head of economic research. Mr. Schwartsman has been engaged in the economics research area for more than 20 years. He was a professor of economics at Pontifícia Universidade Católica de São Paulo from 1987 to 1991, a professor of economics at the Universidade de São Paulo from 1990 to 1991, a teaching assistant at the University of California in 1994, a professor of economics at Instituto de Ensino e Pesquisa — INSPER, an economist for Unibanco — União de Bancos Brasileiros S.A. from 1985 to 1986, an economist for Companhia Brasileira de

Distribuição from 1986 to 1991, chief economist for Crédit Agricole Indosuez Emerging Markets from 1995 to 1998, chief economist and research officer for Indosuez W.I. Carr Securities from 1991 to 2001, chief economist and chief of research of BBA Corretora, chief economist and officer of Unibanco — União de Bancos Brasileiros S.A. in 2003, the Deputy Governor for International Affairs at Banco Central do Brasil from 2003 to 2006 and chief economist in Latin America of Banco ABN AMRO Real S.A. from 2006 to 2008 and chief economist in Brasil from 2008 to 2009. Mr. Schwartsman's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Amancio Acúrcio Gouveia. Mr. Gouveia is Brazilian and was born on March 31, 1963. He holds a degree in accounting from the Universidade Santa Úrsula. As one of our officers, he supervises accounting management. Mr. Gouveia has been engaged in the area of accounting for financial institutions for 23 years. He was an audit manager for KPMG until 1991, accountancy manager of Unibanco — União de Bancos Brasileiros S.A. from 1991 to 1999, supervisory manager of BankBoston Banco Múltiplo S.A. from 1999 to 2001 and has been an accountancy controlling manager of the Santander Group since 2001. Currently, he is also an executive officer of Santander Administradora de Consórcios Ltda., Santander Brasil Seguros S.A., Santander Seguros S.A., Santander Capitalização S.A., Aymoré Crédito, Financiamento e Investimento S.A., Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. —BANDEPE) and Santander Brasil Administradora de Consórcio Ltda. (formerly named ABN AMRO Real Administradora de Consórcio Ltda.). He is also member of the Fiscal Council of Companhia Energética de São Paulo. Mr. Gouveia's business address is Rua Armador Bueno, 474, São Paulo, SP 04752-005, Brazil.

André Fernandes Berenguer. Mr. Berenguer is Brazilian and was born on January 13, 1968. He holds a degree in business administration from Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas. As our officer, he is responsible for Global Transaction Banking. Mr. Berenguer has been engaged in the money market for over 20 years. He was the treasurer of Companhia Brasileira de Projetos e Obras CBPO — Grupo Odebrecht from 1988 through 1992, financial manager of Tenenge S.A. — Grupo Odebrecht from 1993 through 1996, relationship manager of Banco BBA Creditanstalt S.A. from 1996 through 2000, senior manager of BBA Securities Corp., NY from 2000 through 2001, Director of ING Wholesale Bank and has been at Santander Brasil since 2007. He is José de Menezes Berenguer Neto's brother. Mr. Berenguer's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 004543-011, Brazil.

Antonio Fernando Laurelli Ribeiro. Mr. Ribeiro is Brazilian and was born on April 17, 1958. He holds a degree in business administration and a master's degree in finance from Fundação Getúlio Vargas. As one of our officers, he is the executive supervisor of compliance in Latin America. Mr. Ribeiro has been engaged in the money market for 29 years. He was the planning manager of Credicard S.A. Adm de Cartões de Crédito from 1980 through 1982, credit analyst of Bank of America N.T. & S.A. from 1982 through 1985, manager of the public sector companies area at Citibank N.A. from 1985 through 1986, manager at ABN AMRO Bank from 1991 through 1998 and started at Banco ABN AMRO Real S.A. in 1998 as financial institutions manager of Banco ABN AMRO Real S.A. Mr. Ribeiro was compliance supervisor in Latin America of Banco ABN AMRO Real S.A. from 2006 to 2009. Currently, he is also an executive officer of Aymoré Crédito, Financiamento e Investimento S.A., Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. — BANDEPE), Santander Administradora de Consórcios Ltda. and Santander Brasil Administradora de Consórcio Ltda. (formerly named ABN AMRO Real Administradora de Consórcio Ltda.). Mr. Ribeiro's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Antonio Pardo de Santayana Montes. Mr. Montes is Spanish and was born on November 5, 1971. He holds a degree in economics and a law degree from the Universidade Pontifícia Comillas in Icade. As one of our officers, he is responsible for the development of policies, systems, methods and risk control. Mr. Montes has been engaged in the accountancy area for 14 years. He was an advisor of PricewaterhouseCoopers from 1995 to 1998, senior risk analyst for Santander Central Hispano Santander Investment from 1998 to 2000, and senior manager of Monitor Company from 2000 to 2005 and has been with the Santander Group since 2008. Mr. Montes's business address is Avenida Juscelino Kubitschek, 2041 and 2235, 14th Floor, São Paulo, SP 04543-011, Brazil.

Carlos Leibowicz. Mr. Leibowicz is Argentinean and was born on December 31, 1970. He holds a degree in economics from the Universidad Nacional de Cuyo (Mendoza, Argentina). As our officer, he is responsible for wholesale clients. Mr. Leibowicz has been engaged in the banking market for 15 years. He started his career at ABN AMRO Bank N.V., Argentina, in 1994, where he was a corporate banking officer from 1996 through 1998 and head of risk management from 1998 through 2002. In 2002, he started at Banco ABN AMRO Real S.A. as a senior manager, where he held several positions, including head of Latin America risk management, where he stayed until 2005, when he went back to ABN AMRO Bank N.V. as global head of Country risk management. After that, Mr. Leibowicz was a vice president at Banco Antonveneta S.p.A. from 2006 through 2008, a chief risk officer of Banco ABN AMRO Real S.A. in 2008 and has been at Banco Santander (Brasil) S.A. since October 2008 as head of Corporate banking. Mr. Leibowicz's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Cassius Schymura. Mr. Schymura is Brazilian and was born on February 19, 1965. He holds a degree in electrical engineering from the Pontifícia Universidade Católica in Rio de Janeiro and a master's in business administration from Fundação Dom Cabral. As one of our officers, he is responsible for the products, payment and credit cards areas. Mr. Schymura has been engaged in the financial products area for 20 years. He was the investment products manager for Banco Nacional S.A. from 1989 to 1991, products and marketing manager of Cardway Processamento from 1991 to 1994, products manager of Cartão Nacional from 1994 to 1996, marketing and products supervisory manager of Unicard Banco Múltiplo S.A. from 1996 to 1999, senior associate of Booz Allen & Hamilton in 1999, a board member and the president officer of Idéiasnet S.A. from 2000 to 2001, and the general manager of SOFTCORP from 2001 to 2004 and has been with the Santander Group since 2004. Currently, he is also member of the board of directors of Companhia Brasileira de Soluções e Serviços. Mr. Schymura's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 17th Floor, São Paulo, SP 04543-011, Brazil.

Ede Ilson Viani. Mr. Viani is Brazilian and was born on September 5, 1967. He holds a degree in accounting from Faculdades Tibiriça and an MBA from Instituto de Ensino e Pesquisa — INSPER. As one of our officers, he is responsible for the small and medium enterprises business area. Mr. Viani has been engaged in the money market for 26 years. He was an auditor of Banco Itaú S.A. from 1986 to 1990. He started as a senior auditor of BankBoston S.A., where he was a managing officer from 2005 to 2007 and has been our managing officer of business since 2007. Mr. Viani's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Eduardo Müller Borges. Mr. Borges is Brazilian and was born on September 12, 1967. He holds a degree in business administration from the Pontifícia Universidade Católica. As one of our officers, he is responsible for the corporate and investment banking areas. Mr. Borges has been engaged in the local and international money market for 16 years. He was an international trade manager and then an international capital markets senior manager of the First National Bank of Boston, São Paulo from 1993 to 1996, vice president in emerging markets syndicated loans of BancBoston Robertson Stephens Inc. in Boston, Massachusetts from 1996 to 1999, officer of BankBoston Banco Múltiplo S.A. from 1999 to 2000, capital markets vice president of Banco JP Morgan S.A. from 2000 to 2002, capital markets vice president of Banco Santander Brasil S.A. from 2002 to 2004, officer of ING Bank N.V. São Paulo from 2004 to 2005 and has been working at Banco Santander (Brasil) S.A. again since 2005. Mr. Borges's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Flávio Tavares Valadão. Mr. Valadão is Brazilian and was born on July 1, 1963. He holds a degree in electrical engineering from Escola de Engenharia Mauá, a master's in electrical engineering from the University of Lille in France and an accounting and finance degree from the Instituto Brasileiro de Mercado de Capitais. As one of our officers, he is responsible for the mergers and acquisitions area. Mr. Valadão has been engaged in the banking business for 20 years. He was a corporative finance officer for Banco Paribas from 1990 to 1998 and after then worked for Banco ABN AMRO Real S.A. Mr. Valadão's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Gilberto Duarte de Abreu Filho. Mr. Abreu is Brazilian and was born on August 7, 1973. He holds a degree in industrial engineering from the Universidade de São Paulo and an MBA from the Massachusetts Institute of Technology in Cambridge, Massachusetts. As one of our officers, he is responsible for our insurance operations. Currently, he is also an executive officer of Santander Brasil Seguros S.A., Santander Seguros S.A. and Santander Capitalização S.A. He has been leading our insurance business for the last 4 years and previously managed alternative channels of the Santander Brasil Group. Before joining Banco Santander (Brasil) S.A., Mr. Abreu was a senior engagement manager at McKinsey & Company, performing projects in both financial and retail practices. Mr. Abreu's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 22nd Floor, São Paulo, SP 04543-011, Brazil.

Jamil Habibe Hannouche. Mr. Hannouche is Brazilian and was born on June 23, 1960. He holds a degree in mechanical engineering from Universidade Mogi da Cruzes — UMC, a specialization degree in finance and an MBA from Instituto de Ensino e Pesquisa — INSPER. As one of our officers, he is responsible for the "Universidades" area in the retail segment. Mr. Hannouche has been engaged in the money market for 25 years. He was a sales officer for Banco Nacional S.A. from 1983 to 1995, retail officer of Unibanco — União de Bancos Brasileiros S.A. from 1997 to 2000 and vice president of the universities sector of Banco Santander (Brasil) S.A. since 2007. Mr. Hannouche's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 19th Floor, São Paulo, SP 04543-011, Brazil.

João Batista Videira Martins. Mr. Martins is Brazilian and was born on March 1, 1957. He holds a degree in economics from the Fundação Armando Alvares Penteado and a postgraduate degree in financial administration from the Pontifícia Universidade Católica and the Universidade de São Paulo. As one of our officers, he is responsible for the retail area. Mr. Martins has been engaged in the money market for 30 years. He was a credit officer of Banco Itaú S.A. from 1995 to 2004, credit and collection officer of Banco J. Safra from 2004 to 2006 and has been at Banco Santander (Brasil) S.A. since 2006. Mr. Martins's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

João Guilherme de Andrade Só Consiglio. Mr. Consiglio is Brazilian and Italian and was born on December 07, 1968. He holds a degree in economics from the Universidade de São Paulo, an incomplete master's course in economics from the Fundação Getúlio Vargas and a Post Laurea from the Universitá Degli Studi di Genova, Italy, Facoltá di Economia e Commercio. As one of our officers, he is currently responsible for the Business segment. Mr. Consiglio has been engaged in money markets for 15 years. He was an economist at Bunge (Serfina S.A. Adm e Participações) from 1990 to 1994, a manager of the economics department of Santista Corretora S.A. CVM from 1994 to 1995 and has been at Banco ABN AMRO Real S.A. and subsequently Banco Santander (Brasil) S.A. since 1995, where he started as the corporate banking manager, then assumed corporate development and private equity functions until 2005 when he became responsible for products. He served as a member of the board of directors at CBSS (Visa Vale) until 2008. Currently, he is also member of the board of directors of Câmara Interbancária de Pagamentos — CIP and member of the Conselho Superior of FUNCEX. Mr. Consiglio's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 25th Floor, São Paulo, SP 04543-011, Brazil.

Joel Michael Roberto. Mr. Roberto is North American and was born on October 20, 1966. He holds a degree in philosophy from the University of California, Berkeley, and a J.D. degree from Harvard Law School. As one of our officers, he is responsible for corporate clients in the telecommunications, media, technology, retail, and services sectors. Mr. Roberto has been engaged in the corporate legal and international finance markets for 18 years. He was an associate at Skadden, Arps, Slate, Meagher & Flom from 1993 to 1997, an officer of ABN AMRO Corporate Finance Ltd. in London from 1997 to 2002 and has since been with Banco ABN AMRO Real S.A. Mr. Roberto's business address is Rua Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Luiz Felipe Taunay Ferreira. Mr. Ferreira is Brazilian and was born on March 18, 1967. He holds a degree in business administration from the Fundação Getúlio Vargas, a degree in economics from the Universidade de São Paulo and a master degree in economics from the Universidade de São Paulo. Mr. Ferreira is also a CFA charter holder. As one of our officers, he works in the investor relations department. Mr. Ferreira has been engaged in the money market for 15 years. He was a trader for Banco ING Brasil from 1994 to 1996 and head of equity derivatives market risk management at ING Barings, London from 1996 to 1998. He joined Banco ABN AMRO Real S.A. in 1998 and has been with the Santander Brasil Group ever since. Currently, he is also an executive officer of Aymoré Crédito, Financiamento e Investimento S.A. and Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A.—BANDEPE). Mr. Ferreira's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 10th Floor, São Paulo, SP 04543-011, Brazil.

Luiz Fontoura de Oliveira Reis Filho. Mr. Oliveira is Brazilian and was born on July 10, 1968. He holds a degree in economics from the Universidade de Brasília and an MBA from Northwestern University's Kellogg School of Management. As one of our officers, he is responsible for Corporate and Investment banking. Mr. Oliveira has been engaged in the money market for 18 years. He has been with Banco ABN AMRO S.A. since 1991. Currently, he is also an executive officer of Companhia Petrolífera Marlim and Marlim Participações S.A. Mr. Oliveira's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 24th Floor, São Paulo, SP 04543-011, Brazil.

Marcio Aurelio de Nobrega. Mr. Nobrega is Brazilian and was born on August 23, 1967. He holds a degree in business administration and economics from the Faculdade Santana. As one of our officers, he is responsible for the procedures and control of treasury, derivatives, exchange and capitalization, among others. Mr. Nobrega has been engaged in the bank business for 25 years. He worked at Banco ABN Real AMRO Real S.A. from 1982 to 2009. Mr. Nobrega's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Marcos Adriano Ferreira Zoni. Mr. Zoni is Brazilian and was born on December 10, 1964. He holds a degree in business and public administration from Unisul — Universidade do Sul de Santa Catarina. As one of our officers, he is responsible for the management, innovation and expenses areas. Mr. Zoni has been engaged in the banking business for 20 years. He was a financial manager at Banco Nacional S.A. from 1990 to 1994, controlling manager at Unibanco — União de Bancos Brasileiros S.A. from 1995 to 1997, control manager of the technology direction at Banco ABN AMRO Real S.A. from 1997 to 2008 and since then has been with the Santander Brasil Group. Mr. Zoni's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Maria Eugênia Andrade Lopez Santos. Ms. Santos is Brazilian and was born on January 23, 1966. She holds a degree in economics from the Universidade da Bahia and a postgraduate degree from the Fundação Getúlio Vargas. As one of our officers, she is responsible for relationships with multinational clients in Brazil. Ms. Santos has been engaged in the corporate area for 18 years. Her business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Mauro Siequeroli. Mr. Siequeroli is Brazilian and was born on March 24, 1957. He holds a degree in business administration from the Fundação Getúlio Vargas and a postgraduate degree in industrial resources and general administration also from the Fundação Getúlio Vargas. As one of our officers, he is responsible for services and operations. Mr. Siequeroli has been engaged in the back-office for 19 years. He was an operations officer for Banco Crefisul S.A. from 1985 through 1994, a products officer for Banco BMC from 1995 to 1998, the operations officer for Banco Bandeirantes S.A. from 1999 to 2000 and has been our managing officer since 2001. Currently, he is also an executive officer of Santander S.A. — Serviços Técnicos, Administrativos e de Corretagem de Seguros and Real Corretora de Seguros S.A. He is also a board member of Banesprev S.A. Mr. Siequeroli's business address is Avenida Interlagos, 3501, Block 10, São Paulo, SP 04661-200, Brazil.

Nilo Sérgio Silveira Carvalho. Mr. Carvalho is Brazilian and was born on February 26, 1961. He holds a degree in business administration from UniSantos — Universidade Católica de Santos and an MBA from Fundação Getúlio Vargas and Moroco Associados. As one of our officers, he is responsible for the retail area. Mr. Carvalho has been engaged in the money market for 25 years. He was a products managing officer for Unibanco — União de Bancos Brasileiros S.A. from 1994 to 1998, retail and technology managing officer for Santander Brasil from 1998 to 2004, executive officer of Medial Saúde S.A. from 2004 to 2008 and our retail officer since 2008. Currently, he is also an executive officer of Santander Administradora de Consórcios Ltda., Santander Brasil Administradora de Consórcio Ltda. (formerly named ABN AMRO Real Administradora de Consórcio Ltda.), Santander Brasil Seguros S.A., Santander Seguros S.A. and Santander Capitalização S.A. Mr. Carvalho's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 20th Floor, São Paulo, SP 04543-011, Brazil.

Ramón Sanchez Díez. Mr. Díez is Spanish and was born on October 29, 1968. He holds a degree in economics from the Universidad Autonoma de Madrid. As one of our officers, he is responsible for our retail banking operations. He served as a financial analyst for Banco Santander's New York branch from 1992 to 1997 and as an officer for strategy and analysis for Latin American banks at Banco Santander S.A. from 1997 to 2003. He was an officer for strategy and investor relations for Banco Santander (Brasil) S.A. from 2004 to 2006. Mr. Díez's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 20th Floor, São Paulo, SP 04543-011, Brazil.

Reginaldo Antonio Ribeiro. Mr. Ribeiro is Brazilian and was born on May 19, 1969. He holds a degree in economics from the Universidade Estadual de Campinas, an accounting degree from the Universidade Paulista and an MBA from FIPECAFI (Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras), São Paulo University. As one of our officers, he is responsible for tax issues, tax planning strategies and corporate restructuring processes. Mr. Ribeiro has been engaged in the tax area for 18 years. He served as a manager for Arthur Andersen Consultoria Fiscal Financeira S/C Ltda. from 1990 to 2001. He was also a member of the fiscal counsel of the Companhia Energética de São Paulo and AES TIETÊ from 2002 to 2006. He is an executive officer of Santander S.A. — Serviços Técnicos, Administrativos e de Corretagem de Seguros, Real Corretora de Seguros S.A. and Aquanima Brasil Ltda. Mr. Ribeiro's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Roberto Correa Barbuti. Mr. Barbuti is Brazilian and was born on August 26, 1968. He holds a degree in business administration from the Fundação Getulio Vargas, a law degree from the Universidade de São Paulo and an MBA from Insead. As one of our officers, he is responsible for the equities division, which encompasses equity capital markets, cash equities, exchange traded derivatives, equity derivatives and custody. Mr. Barbuti has been working with Banco Santander (Brasil) S.A. since February 2007, initially as the Head of Corporate Finance. His main previous professional experiences are ten years in investment banking with the UBS Group (1997-2007), private equity with International Venture Partners (1995-97), M&A with Banco Patrimônio (1992-94) and strategic business consultancy with McKinsey (1990-92). Currently, he is also an executive officer of Banco Bandepe S.A. (formerly named Banco de Pernambuco S.A. — BANDEPE), Companhia Real de Valores – Distribuidora de Títulos e Valores Mobiliários and Real CHP S.A. Mr. Barbuti's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Sérgio Gonçalves. Mr. Gonçalves is Brazilian and was born on August 7, 1956. He holds a degree in economics from the Fundação Armando Alvares Penteado and a master's in executive business administration from the Universidade de São Paulo. As one of our officers, he is responsible for the government and institutions area. Mr. Gonçalves has been engaged in the Brazilian money market for 29 years. He was an officer of Banco Crefisul from 1987 to 1994, product officer of Nossa Caixa from 1995 to 2000 and has been our officer since 2001. Mr. Gonçalves's business address is Avenida Presidente Juscelino Kubitschek, 2041 and 2235, 27th Floor, São Paulo, SP 04543-011, Brazil.

Compensation

Compensation of Directors, Members of Audit Committee and Executive Officers

Our shareholders establish the maximum annual aggregate compensation of our directors, members of our audit committee and executive officers at the annual shareholders' meeting. Compensation of the members of our audit committee is established by our board of directors. Under Brazilian law, we are required to disclose the highest/lowest/average compensation of our directors, members of the audit committee and executive officers without indicating any individual name. However, members of the Brazilian Institute of Finance Executives (*Instituto Brasileiro de Executivos de Finanças* – IBEF), of which we are part of, were granted an injuction on March 2, 2010 allowing us not to disclose this information.

For each of 2007 and 2008, members of our board of directors and executive officers were paid in the aggregate approximately R$55.9 million for their services. For each of 2007 and 2008, our audit committee members received the maximum approved compensation of R$1.5 million. For 2009, the approved maximum aggregate compensation is R$1.7 million for all of our audit committee members and R$223.8 million for all of our directors and executive officers. The increase in total compensation approved for our directors and statutory officers in 2009 to R$223.8 million from total amounts paid in 2008 of R$55.9 million was due primarily to an increase in number of statutory officers as a result of the integration and subsequent merger of Banco ABN AMRO Real S.A. into Banco Santander (Brasil) S.A.

The compensation due to the members of our board of directors, executive board and audit committee is paid monthly. In addition, the maximum aggregate compensation includes amounts paid under our bonus program. The criteria for granting and paying bonus compensation vary according to the activities performed by the different areas and, therefore, the payment of the bonus may vary depending on the department and activities performed by each member. Our directors and officers may participate in the same pension plan that is available to all of our employees.

As approved by our board of directors at the meeting held on December 23, 2009, we indemnify our directors and executive officers from claims arising during the time they are our directors or officers, exclusively related to court or administrative costs and attorney's fees, except in cases of bad faith, gross negligence, willful misconduct or mismanagement by our directors or executive officers.

Share Compensation Plans

Performance Share Plan

We have a multiannual incentive plan payable in shares of Santander Spain for the benefit of our executive directors and other members of senior management and any other executives as determined by the board of directors or, when so delegated by the board of directors, the executive committee. The expenses associated with this plan are borne by us and are part of the overall compensation of the beneficiaries of the plan, approved annually by our shareholders. The beneficiaries of the plan use such compensation exclusively to purchase shares of Santander Spain. This plan involves successive three-year cycles of shares deliveries to the beneficiaries, so that each year one cycle will begin and, from 2009 onwards, another cycle will also end. The first two cycles of the plan commenced in July 2007, the first cycle having a duration of two years (PI09) and the second cycle having a standard three-year term (PI10). In June 2008, the third and the fourth, three-year cycles of the performance share plan (PI11 and PI12) were approved.

For each cycle, each beneficiary who remains with our bank for the duration of the plan is entitled to a maximum number of shares based on the achievement of certain performance targets by the Santander Group. The targets are defined by comparing the Santander Group's performance with that of a benchmark group of financial institutions and are linked to two parameters: total shareholder return, or "TSR" and growth in earnings per share or "EPS." The relevant performance targets are considered as of the third anniversary of the commencement of each cycle (with the exception of the first cycle, for which the second anniversary was considered). Shares awarded pursuant to each cycle are delivered within seven months from the end of the cycle.

At the end of each cycle, the TSR and the EPS growth is calculated for the Santander Group and each of the benchmark entities and the results are ranked from first to last. Each of the two criteria (TSR and EPS growth) is weighted at 50.0% in the calculation of the percentage of shares to be delivered, based on the following scale and in accordance with the Santander Group's relative position among the group of benchmark financial institutions:

The Santander Group's place in the TSR Ranking	Percentage of maximum shares to be delivered	The Santander Group's place in the EPS growth ranking	Percentage of maximum shares to be delivered
1st to 6th	50%	1st to 6th	50%
7th	43%	7th	43%
8th	36%	8th	36%
9th	29%	9th	29%
10th	22%	10th	22%
11th	15%	11th	15%
12th and below	0%	12th and below	0%

We make certain adjustments to the ranking criteria and award criteria if any benchmark group entity is acquired by another company and its shares cease trading or it ceases to exist.

Pursuant to this plan, we spent R$10.3 million, R$35.3 million and R$19.9 million in each of 2007, 2008 and 2009, respectively.

Selective Delivery Share Plan

This plan provides for the selective delivery of shares in special circumstances relating to the hiring or retention of employees who are not executive directors, provided such employees have completed a minimum of three to four years (depending on the type of employee) of service at our bank. Each participant will be entitled to receive the shares upon completion of the minimum period of service.

Fair Value

The fair value of the performance share plans was calculated as follows:

- It was assumed that the beneficiaries would not leave our employ during the term of each plan.
- The fair value of the 50% linked to the Santander Group's relative TSR position was calculated on the grant date, on the basis of the report of an independent expert whose assessment was carried out using a Monte Carlo valuation model, performing 10,000 simulations to determine the TSR of each of the companies in the benchmark group, taking into account the variables set forth below. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate.

	PI09	PI10	PI11	PI12
Expected volatility(1)	16.25%	15.67%	19.31%	42.36%
Annual dividend yield based on last few years	3.23%	3.24%	3.47%	4.88%
Risk-free interest rate (Treasury Bond yield -zero coupon) over the period of the plan	4.473%	4.497%	4.835%	2.04%

(1) Calculated on the basis of historical volatility over the corresponding period (two or three years).

Applying this simulation model results in percentage values of 42.7% for PI09, 42.3% for PI10, 44.9% for PI11, and 52.4% for PI12, which are applied to 50.0% of the value of the options granted, in order to determine the cost of the TSR-based portion of the incentive for accounting purposes. Since this valuation refers to a market condition, it cannot be adjusted after the grant date. In view of the high correlation between TSR and EPS, we considered it feasible to extrapolate that, in a high percentage of cases, the TSR value is also valid for EPS. Therefore, it initially determined that the fair value of the portion of the plans linked to our relative EPS position, i.e. of the remaining 50.0% of the options granted, was the same as that of the 50% corresponding to the TSR. Since this valuation refers to a non-market condition, we review and adjust it on a yearly basis.

Performance Plan Payable in Reais for the Purchase of Our Shares

We have a multiannual incentive plan similar to the performance share plan payable described above "—Performance Share Plan" that is payable in *reais* (a portion of which must be used to purchase our shares). The plan involves three successive three-year cycles, with payment to be made in *reais* to the beneficiaries in the third year of each cycle. Fifty percent (50.0%) of the amount of the payment received by each beneficiary, net of taxes, must be used to purchase units of Santander Brasil, and the beneficiary must commit to hold such units and shares for at least one year. Each year, beginning in 2009, one cycle will begin and, from 2012 onwards, each cycle will end. The second and third cycles are expected to run from 2010 to 2013 and 2011 to 2014, respectively.

The portion of the maximum benefit that each beneficiary will receive will be based on the level of achievement of certain performance targets by Santander Brasil. One of the targets will be defined by comparing Santander Brasil's unit performance with that of the shares of a benchmark group of financial institutions in Brazil and is linked to the measurement of TSR, which is the increase/decrease in market value of our units plus dividends and/or interest on shareholders' equity paid. TSR will be measured from the beginning and through the end of each cycle. The other performance target will be based on the extent to which Santander Brasil achieves certain net income targets. Each of the two criteria (TSR and net income) will be weighted independently at 50.0% in the calculation of the percentage of the maximum benefit earned. Each beneficiary of this plan will continue to participate with a smaller percentage of compensation in a performance share plan payable in shares of Santander Spain. We do not expect this plan to result in the dilution to our investors because plan participants will acquire their units in market transactions.

This plan was approved by our board of directors on December 23, 2009 and by our shareholders at a general shareholders' meeting held on February 3, 2010.

Share Option Plan for Certain of our Top Executives

We also have a one-time share option plan to benefit certain of our top executive officers. The principal features of this plan are as follows:

- the plan is structured as a single three-year benefit cycle (2009, 2010 and 2011);
- options on our units will be delivered to executive officers with an exercise price equal to R$23.50;
- the beneficiaries will be vested by June 30, 2012;
- executive officers will be required to hold one third of any units received pursuant to the exercise of such options for at least one year; and
- each executive officer will be eligible for a grant of up to a maximum number of options pursuant to this plan, and the percentage of the maximum number of options actually granted will be based on TSR and net income of Santander Brasil. Each of the two criteria will be weighted independently at 50.0% in the calculation of the percentage of options to be granted.

Each beneficiary of this plan will continue to participate with a smaller percentage of compensation in a performance share plan payable in shares of Santander Spain. We expect that shares issued under this plan would not exceed 0.5% of shares outstanding.

This plan was approved by our board of directors on December 23, 2009 and by our shareholders at a general shareholders' meeting held on February 3, 2010.

Audit Committee

According to Central Bank regulations, an audit committee that is separate from the board of directors must be created by a shareholder's resolution. Notwithstanding the requirement for separate bodies, the members of the audit committee may be members of the board of directors, provided that they meet certain independence requirements. Under Brazilian law, the hiring of the independent auditor is a right that is reserved exclusively for the board of directors of a company.

Pursuant to our bylaws and Central Bank regulations, on August 31, 2006, we established an audit committee, which acts as the audit committee for all our affiliates and subsidiaries. The primary function of our audit committee is to assist our boards of directors in fulfilling their oversight responsibilities by analyzing and ensuring our compliance with applicable laws and regulation. Our audit committee also supervises the integrity of our financial statements and internal controls, including the processing of confidential and anonymous reports from employees, shareholders, suppliers, customers and interested parties regarding fraud, questionable accounting or auditing matters.

Among other things, our audit committee is responsible for:

- recommending to our board of directors and each of our consolidated subsidiaries' boards of director, the appointment of and, if necessary, the replacement of, their respective independent auditors;
- overseeing the work of our independent auditors;
- reviewing our financial statements before their publication, including the explanatory notes, management reports and independent accountants' report and the reports issued by the independent accountants of each of our consolidated subsidiaries;
- analyzing the effectiveness of our internal and independent auditing and accounting procedures and management's compliance with the auditing policies and procedures established by our internal and independent auditors; and
- meeting with our management and independent and internal auditors and with the management and the independent and internal auditors of each of our consolidated subsidiaries, in order to verify their compliance with the audit committee's recommendations.

Our bylaws require that our audit committee be composed of three to six members, each of whom is elected by our shareholders for a maximum five-year term of office. Our board of directors elects our audit committee's coordinator. The members of our audit committee may be replaced as follows: (1) in case of a temporary replacement, the coordinator of our audit committee will be replaced by another member chosen by the coordinator and in the absence of such a temporary placement chosen by the coordinator, the board of directors will appoint a substitute, from among the other members of the Audit Committee, and (2) in the case of a vacancy, such position will be filled by an individual appointed by our board of directors. A substitute member will serve on the audit committee until such time as our board of directors elects a replacement member. On November 12, 2007, our board of directors approved the audit committee's charter.

The current members of the audit committee, as approved by the Central Bank, are Maria Elena Cardoso Figueira, who acts as Coordinator, Paulo Roberto Simões da Cunha, who is our audit committee financial expert, and Sérgio Darcy da Silva Alves. In addition, on March 22, 2010, Mr. Celso Clemente Giacometti was elected as a member of our audit committee, such election pending approval by the Central Bank. The reelection of the other members of our audit committee is also pending Central Bank's approval. The term of the members of the audit committee will expire on March 22, 2011. For more information about our audit committee see "—Audit Committee and Audit Committee Additional Requirements."

Fiscal Council

According to Brazilian corporate law, the adoption of a fiscal council is voluntary. Although our bylaws contemplate the possibility of a fiscal council, we currently do not have a fiscal council in place. A fiscal council may be adopted on a permanent or temporary basis. The fiscal council is an independent body elected by shareholders annually to supervise the activities of management and independent auditors. The responsibilities of the fiscal council are established by Brazilian corporate law and include oversight of management's compliance with laws and bylaws, the issuance of a report on the company's annual and quarterly reports and certain matters submitted for shareholders' approval and calling of shareholders' meetings and reporting on specific adverse matters arising at those meetings.

Share Ownership

The following tables provide the names of our directors, executive officers and audit committee members who owned shares of Santander Brasil as of December 31, 2009.

Shareholder	Common Shares	Percentage of Outstanding Common Shares	Preferred Shares	Percentage of Outstanding Preferred Shares	Percentage of Total Share Capital
Marcos Matioli de Souza Vieira	207,434	(*)	181,157	(*)	(*)
Fábio Colletti Barbosa	216	(*)	187	(*)	(*)
José de Paiva Ferreira	1	(*)	–	–	(*)
Marcial Angel Portela Alvarez	1	(*)	–	–	(*)
José Antonio Alvarez Alvarez	1	(*)	–	–	(*)
José Manuel Tejón Borrajo	1	(*)	–	–	(*)
José Roberto Mendonça de Barros	1	(*)	–	–	(*)
Viviane Senna Lalli(**)	1	(*)	–	–	(*)

(*) Owns less than 0.01%.

Shares held by members of our board of directors and executive officers do not have voting rights distinct from shares held by our other shareholders.

Proceedings Involving Management

Fabio Colletti Barbosa served as an executive officer of Cruzeiro Sociedade de Fomento Comercial, or "Cruzeiro", a former subsidiary of Banco ABN AMRO Real S.A. Banking and tax authorities alleged that Cruzeiro, a non-financial institution, in 1997 (i) engaged in non-authorized financial activities, and (ii) did not pay a specific tax allegedly due in connection with these financial activities. Administrative proceedings were initiated and the facts were provided to the Public Prosecutor Office, which in 2004 initiated a penal claim against Mr. Barbosa and other Cruzeiro managers for operating a financial institution without authorization with the intention of avoiding tax payments. In the administrative proceeding, the National Financial System Appeal Council and the Brazilian Federal Revenue Office have decided in favor of Cruzeiro. The decisions under the administrative proceedings have been presented in the penal case, which is temporarily suspended, waiting for a decision that may lead to its termination. Mr. Barbosa's legal counsel has advised that the claims against him are unfounded and without merit, which advice is supported by the fact that the administrative proceedings that originated the penal claim have already been decided in favor of Cruzeiro.

Principal Differences between Brazilian and U.S. Corporate Governance Practices

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we are required only to: (1) have an audit committee or audit board, pursuant to an applicable exemption available to foreign private issuers, that meets certain requirements, as discussed below, (2) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules, and (3) provide a brief description of the significant differences between our corporate governance practices and the NYSE corporate governance practice required to be followed by U.S. listed companies. The discussion of the significant differences between our corporate governance practices and those required of U.S. listed companies follows below.

Majority of Independent Directors

The NYSE rules require that a majority of the board must consist of independent directors, although as a company the majority of whose voting shares are held by another group, we would not be required to comply with this rule. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Under the listing standards of Level 2 of BM&FBOVESPA, our board of directors must have at least five members, at least 20.0% of which must be independent. Also, Brazilian corporate law, the Central Bank and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of Brazilian corporate law, the Central Bank and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE test for director independence. The Brazilian corporate law requires that our directors be elected by our shareholders at an annual shareholders' meeting. Currently, all of our directors are elected by our controlling shareholder.

Executive Sessions

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. Brazilian corporate law does not have a similar provision. According to Brazilian corporate law, up to one-third of the members of the board of directors can be elected from management. Our president, Fábio Colletti Barbosa, is a member of our board of directors. There is no requirement that our non-management directors meet regularly without management. As a result, the nonmanagement directors on our board do not typically meet in executive session.

Committees

NYSE rules require that listed companies have a nominating/corporate governance committee and a remuneration committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities although as a company the majority of whose voting shares are held by another group, we would not be required to comply with this rule. The responsibilities of the nominating/corporate governance committee include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company. The responsibilities of the remuneration committee, in turn, include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive-compensation and equity-based plans.

We are not required under applicable Brazilian corporate law to have a nominating committee, corporate governance committee and remuneration committee. Pursuant to our bylaws, our directors are elected by our shareholders at an annual shareholders' meeting. Aggregate compensation for our directors and executive officers is established by our shareholders.

Audit Committee and Audit Committee Additional Requirements

NYSE rules require that listed companies have an audit committee that (1) is composed of a minimum of three independent directors who are all financially literate, (2) meets the SEC rules regarding audit committees for listed companies, (3) has at least one member who has accounting or financial management expertise and (4) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities.

Resolution No. 3,198 from the Central Bank requires us to have an audit committee of at least three members. The audit committee is elected by the board of directors. In April 2003, the SEC stated that the listing of securities of foreign private issuers will be exempt from the audit committee requirements if the issuer meets certain requirements. We believe that our audit committee, as established according to Resolution No. 3,198 allows us to meet the requirements set forth by the SEC. We rely on this exemption.

Shareholder Approval of Equity Compensation Plans

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under Brazilian corporate law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital is subject to shareholder approval. Our shareholders do not have the opportunity to vote on all equity compensation plans.

Corporate Governance Guidelines

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. We comply with the corporate governance guidelines under applicable Brazilian law. We believe the corporate governance guidelines applicable to us under Brazilian law are consistent with the guidelines established by the NYSE. We have adopted and observe (1) the Policy of Material Fact Disclosure, which deals with the public disclosure of all relevant information as per CVM's Instruction No. 358 guidelines; and (2) the Policy on Trading of Securities, which requires management to disclose all transactions relating to our securities, and which is optional under CVM's Instruction No. 358.

Code of Business Conduct and Ethics

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Applicable Brazilian law does not have a similar requirement. We adopted a Code of Ethics on February 27, 2009 which regulates the conduct of our managers in connection with the disclosure and control of financial and accounting information and their access to privileged and non-public information. Our Code of Ethics complies with the requirements of the Sarbanes-Oxley Act and the NYSE rules.

Internal Audit Function

NYSE rules require that listed companies maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control.

Our internal auditing department works independently to conduct methodologically structured examinations, analysis, surveys and fact finding to evaluate the integrity, adequacy, effectiveness, efficiency and economy of the information systems processes and internal controls related to our risk management. The internal auditing department reports continually to our board of directors and audit committee and its activities are directly supervised by our audit committee, which acts under our board of directors, and is monitored by our audit and operational risk management superior committee. In carrying out its duties, the internal auditing department has access to all documents, records, systems, locations and people involved with the activities under review.

PRINCIPAL STOCKHOLDERS

The Santander Group is the largest private financial group in Spain. Through expansion and acquisitions in Chile, Mexico, Colombia, Venezuela, Argentina and Brazil, among other countries, the Santander Group has grown to become the largest bank in Latin America, measured by assets. As a result of its voting control over us, the Santander Group is in a position to cause the election of a majority of the members of our management and to determine substantially all matters to be decided by a vote of shareholders.

As of November 30, 2009, Banco Santander, S.A. (formerly Banco Santander Central Hispano, S.A.) indirectly owned 84.21% of our capital stock through its direct subsidiaries, Grupo Empresarial Santander, S.L., Santander Insurance Holding, S.L. and Sterrebeeck B.V. The Santander Group ultimately determines our strategy and manages our operations. Our relationship with the Santander Group has provided us with access to the expertise of the Santander Group in areas such as technology, product innovation, human resources and internal audit control systems. In addition, the Santander Group requires us to follow the Santander Group's banking policies, procedures and standards, especially with respect to credit approval and risk management. Such policies and expertise have been successfully used by the Santander Group in the Spanish and other banking markets, and our management believes that such policies and expertise have had and will continue to have a beneficial effect upon our operations.

The following table presents the beneficial ownership of our common and preferred shares as of the date of this information memorandum.

Principal Shareholders	
Grupo Empresarial Santander, S.L	34.71%
Sterrebeeck B.V.	46.62%
Santander Seguros S.A	0.00%
Santander Insurance Holding, S.L	2.22%
Employees(1)	0.00%
Other minority shareholders	16.45%
Treasury shares	0.00%
Total	**100.00%**

(*) Owns less than 0.01%.

(1) Includes members of senior management, including Marcos Matioli de Souza Vieira, Fábio Colletti Barbosa, José de Paiva Ferreira, Marcial Angel Portela Alvarez, José Antonio Alvarez Alvarez, José Manuel Tejón Borrajo, José Roberto Mendonça de Barros and Viviane Senna Lalli. See "Management —Share Ownership."

Significant Changes in Percentage Ownership of Principal Shareholders

As of January 31, 2006, Grupo Empresarial Santander, S.L. owned 100.0% of the ordinary shares and 94.86% of the preferred shares of our then-predecessor company, Banco Santander Meridional S.A. As a result of the reorganization of our operations in Brazil in 2006 (see "Business—History—Santander Group in Brazil"), as of April 30, 2006, Grupo Empresarial Santander, S.L. owned 99.25% of the common shares and 96.50% of the preferred shares (following adjustments for fractional shares resulting from the reorganization) of our then-predecessor company, Banco Santander Banespa S.A. As a result of the share exchange transaction (*incorporação de ações*) on August 29, 2008 (see "Business—History—Banco Real Acquisition"), Sterrebeeck B.V. owned 56.83% of our common shares and 56.83% of our preferred shares and Grupo Empresarial Santander, S.L. owned 41.60% of our common shares and 40.53% of our preferred shares.

Santander Insurance Holding became the beneficial owner of all of its shares in us on August 14, 2009 in connection with the series of share exchange transactions pursuant to which certain asset management and insurance companies that had been beneficially owned by the Santander Group were transferred to us. See "Summary—Recent Events —Acquisition of Asset Management and Insurance Companies." As a result of the share exchange transactions (*incorporações de ações*) on August 14, 2009, Santander Insurance Holding owned 2.61% of our common shares and 2.61% of our preferred shares, Sterrebeeck B.V. owned 54.69% of our common shares and 54.69% of our preferred shares and Grupo Empresarial Santander, S.L. owned 41.19% of our common shares and 40.17% of our preferred shares.

RELATED PARTY TRANSACTIONS

We currently engage in, and expect from time to time in the future to engage in, financial and commercial transactions with our subsidiaries and affiliates and those of the Santander Group. Among other transactions, we have credit lines outstanding with the Santander Group and its affiliated financial institutions around the world. At December 31, 2008, borrowings from the Santander Group represented approximately 2.7% of our total funding. In addition, from time to time, we enter into certain transactions with the Santander Group and other related parties for the provision of advisory and advertising services. Such transactions are conducted at arm's length, based on terms that correspond to the terms that would apply to transactions with third parties.

In line with regulations applicable to us under Brazilian law, we are not permitted to, and do not provide loans or advances to any of our subsidiaries (with the exception of loans to leasing subsidiaries), executive officers, members of our board of directors or their family members.

Information Technology Platform

We contract with certain affiliates of the Santander Group (Ingeniería de Software Bancário S.L. (Spain), ISBAN S.A. (Chile), Produban Servicios Informáticos Generales S.L. (Spain), ISBAN S.A. (Brasil) and Produban S.A. (Brasil) for the outsourcing of certain products and services relating to our information technology platform, including software development, hosting and information processing. We believe the provision of these services is provided on an arm's-length basis on terms substantially similar to those available from other providers in the market. In 2009 and 2008, we paid affiliates of the Santander Group approximately R$644 million and R$291 million, respectively, for the provision of such products and services. See "Business—Technology."

Procurement Services

We have entered into agreements with Aquanima Brasil Ltda., an affiliate of the Santander Group, which offers procurement services (sourcing, e-procurement, outsourcing and consultancy) to the Santander Brasil Group. Volume aggregation between Santander Brasil and other client companies allow for joint purchases for groups of different clients. We believe the agreements entered into with Aquanima Brasil Ltda. were on an arm's-length basis. In 2008 and 2007, we paid Aquanima Brasil Ltda. approximately R$16 million for the provision of these services, and approximately R$20 million in 2009.

Other Related Party Transactions

From time to time we engage in lending and borrowing transactions to fund our operations and other miscellaneous transactions with various companies of the Santander Group, in compliance with restrictions on loans or advances imposed by Brazilian law. The following table shows the balances owed to us by such companies (assets) at each of December 31, 2009 and December 31, 2008 and the amounts owed by us to such companies (liabilities) at the same dates. The table also sets forth amounts received (income) or paid (expenses) to such companies for the year ended December 31, 2009 and the year ended December 31, 2008. All such transactions with Santander Group companies were conducted on an arm's-length basis on terms substantially similar to those available from other providers in the market.

	December 31, 2009		December 31, 2008	
	Joint-controlled companies	Related-Party	Joint-controlled companies	Related-Party
	(in thousands of reais)			
Assets				
Cash and balances with the Brazilian Central Bank (1)	**–**	**295,448**	**–**	**714,127**
Banco Santander S.A. – Spain	–	294,539	–	713,858
Other	–	909	–	269
Loans and advances to credit institutions (2)	**335,849**	**994,019**	**455,844**	**10,605,899**
Banco Santander S.A. – Spain	–	994,019	–	3,605,118
Abbey National Treasury Services Plc	–	–	–	4,674,000
Santander Benelux, S.A., N.V.	–	–	–	2,326,781
Cía de Crédito, Financiamento e Investimento Renault do Brasil	298,095	–	380,808	–
Cía Arrendamento Mercantil Renault do Brasil	37,754	–	75,036	–
Financial assets held for trading – Trading derivatives	**–**	**953,243**	**–**	**1,501,689**
Banco Santander S.A. – Spain	–	–	–	–
Santander Benelux, S.A., N.V.	–	891,133	–	1,472,414
Santander Overseas Bank, Inc – Puerto Rico	–	–	–	28,858
Other	–	62,110	–	417
Other Assets	**218**	**142**	**111**	**125,237**
Banco Santander S.A. – Spain	–	115	–	1,924
Santander Seguros S.A.	–	–	–	115,720
Santander Brasil Seguros S.A.	–	–	–	4,539
Santander Capitalização S.A.	–	–	–	3,054
Other	218	27	111	–
Liabilities				
Financial Liabilities held for trading – Trading derivatives.	**–**	**(1,037,799)**	**–**	**(1,667,390)**
Banco Santander S.A. – Spain	–	–	–	(160,648)
Santander Benelux, S.A., N.V.	–	(957,392)	–	(1,468,981)
Santander Overseas Bank, Inc – Puerto Rico	–	–	–	(2,232)
Abbey National Plc	–	–	–	(35,529)
Abbey National Treasury Plc	–	(24,028)	–	–
Fundo de Investimento Multimercado Santillana Cred. Privado	–	(55,891)	–	–
Other	–	(488)	–	–
Deposits from credit institutions	**(15,142)**	**(3,551,162)**	**(40,229)**	**(5,471,056)**
Banco Santander S.A. – Spain	–	(2,705,728)	–	(4,071,725)
Santander Overseas Bank, Inc – Puerto Rico	–	–	–	(1,153,129)
Banco Español de Crédito, S.A. – Banesto	–	–	–	(240,852)
Grupo Banesto: Sociedades Consolidables	–	(157,283)	–	–
Abbey National Treasury Plc	–	(387,616)	–	–
Fundo de Investimento Multimercado Santillana Cred. Privado	–	(192,139)	–	–
Fundo de Investimento Multimercado Menorca Cred. Privado	–	(106,490)	–	–
Cía Arrendamento Mercantil Renault do Brasil	(2,626)	–	(25,589)	–
Other	(12,516)	(1,906)	(14,640)	(5,350)
Customer Deposits	**–**	**(1,832)**	**(85,198)**	**(120,400)**
Produban Serviços de Informática S.A.	–	–	–	(35,438)
Santander Seguros S.A.	–	–	–	(8,094)
ISBAN S.A.	–	–	–	(73,153)
Cia Brasileira de Soluções e Serviços – CBSS	–	–	(67,225)	–
Celta Holdings Ltda	–	–	(1,686)	–
Tecnologia Bancária – TECBAN	–	–	(16,280)	–
Other	–	(1,832)	(7)	(3,715)
Subordinated liabilities (3)	**–**	**(1,667,219)**	**–**	**–**
Banco Santander, S.A. – Spain	–	(1,667,219)	–	–
Other financial liabilies – Dividends and Bonuses Payable	**–**	**(1,392,079)**	**–**	**(1,352,252)**
Grupo Empresarial Santander, S.L.	–	(570,414)	–	(567,344)
Santander Insurance Holding, S.L.	–	(81,701)	–	–
Sterrebeeck B.V.	–	(739,683)	–	(784,892)
Others	–	(281)	–	(16)
Other payables – other	**–**	**(9,266)**	**(7,925)**	**(40,534)**
Banco Santander S.A. – Spain	–	(9,266)	–	(12,075)
Ingeniería de Software Bancário – S.L.	–	–	–	(14,479)
ISBAN S.A.	–	–	–	(6,368)
Altec, S.A. – Chile	–	–	–	(4,395)
Produban Serviços de Informática S.A.	–	–	–	(3,084)
Other	–	–	(7,925)	(133)

(1) Comprised of cash balances that did not bear interest.

(2) All loans to related parties were made in our ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectiability or present other unfavorable features.

(3) On January 22, 2010, we redeemed in advance the subordinate CDB (bank certificate of deposit) with original maturity on March 25, 2019 and amounting to R$1,507,000, pursuant to authorization granted by the Central Bank on Janurary 8, 2010. The purpose of the anticipated redemption was to improve our funding structure, accordingly to the strategy infomed in the use of proceeds of the "Final Global Offering Prospect for the Initial Public Offering of Certificates of Deposit Shares (Units) Issuance of Banco Santander (Brasil) S.A."

	December 31, 2009		December 31, 2008	
	Joint- controlled Companies	Related-Party	Joint-controlled companies	Related-Party
	(in thousands of reais)			
Interest and similar income – Loans and advances to credit institutions	**40,034**	**4,950**	**6,167**	**33,348**
Banco Santander S.A. – Spain	–	2,463	–	23,911
Abbey National Treasury Services Plc	–	2,487	–	9,437
Cía de Crédito, Financiamento e Investimento Renault do Brasil	33,674	–	3,947	–
Cía Arrendamento Mercantil Renault do Brasil	6,360	–	2,220	–
Interests, expenses and similar charges – customer deposits	**(7,233)**	**(12,039)**	**(8,153)**	**(10,374)**
Produban Serviços de Informática S.A.	–	–	–	(2,654)
ISBAN S.A.	–	–	–	(7,445)
Fundo de Investimento Multimercado Minorca Crédito Privado	–	(11,940)	–	–
Cía Arrendamento Mercantil Renault do Brasil	(6,379)	–	(8,153)	–
Other	(854)	(99)	–	(275)
Interest expenses and similar charges – deposits from credit institutions	**(400)**	**(125,466)**	**–**	**(552,897)**
Banco Santander S.A. – Spain	–	(100,574)	–	(439,379)
Santander Overseas Bank, Inc – Puerto Rico	–	(9,062)	–	(50,406)
Banco Español de Crédito, S.A. – Banesto	–	–	–	(12,263)
Banco Santnader S.A. – Chile	–	–	–	(50,838)
Grupo Banesto: Sociedades Consolidables	–	(1,131)	–	–
Abbey National Treasury Services Plc	–	(1,869)	–	–
Cia Brasileira de Soluções e Serviços – CBSS	–	(4,821)	–	–
Fundo de Investimento Multimercado Santillana Cred. Privado	–	(7,922)	–	–
Cía de Crédito, Financiamento e Investimento Renault do Brasil	(400)	–	–	–
Other	–	(87)	–	(11)
Gains/losses on financial assets and liabilites	**–**	**(468,098)**	**–**	**(675,087)**
Banco Santander S.A. – Spain	–	–	–	(295,815)
Santander Benelux, S.A., N.V.	–	(320,972)	–	(349,805)
Santander Overseas Bank, Inc – Puerto Rico	–	(6,001)	–	24,145
Fundo de Investimento Multimercado Minorca Crédito Privado	–	46,023	–	–
Fundo de Investimento Multimercado Santillana Cred. Privado	–	(182,833)	–	–
Other	–	(4,315)	–	(53,612)
Other income (expenses)	**6,861**	**(188,209)**	**–**	**(175,929)**
Banco Santander, S.A. – Spain	–	(83,843)	–	15,511
Santander Seguros S.A.	–	(475)	–	1,078
Santander Capitalização S.A.	–	13,351	–	35,054
ISBAN S.A.	–	–	–	(95,552)
Altec, S.A. – Chile	–	(7,805)	–	(2,837)
Aquanima Brasil Ltda	–	(22,239)	–	(16,095)
Ingeniería de Software Bancario, S.L.P.	–	(24,900)	–	(19,857)
Santander Investment Securities Inc.	–	(44,757)	–	–
Cía de Crédito, Financiamento e Investimento Renault do Brasil	6,134	–	–	–
Other	727	(17,541)	–	(93,231)
Gains on disposal of assets not classfied as non-current assets held for sale	**–**	**2,376,460**	**–**	**–**
Santusa Holding S.L.P.	–	2,376,460	–	–

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 Final Terms, will apply to the Notes referred to in such Final Terms. All capitalized terms that are not defined in these terms and conditions will have the meanings given to them in the relevant Final Terms.

The Notes (as defined in Condition 1(a)) are constituted by an amended and restated Trust Deed (as amended from time to time, the "Trust Deed") dated March 26, 2010 and made between, inter alia, Banco Santander (Brasil) S.A., acting through its principal office in Brazil, or through its Grand Cayman branch (the "Issuer") and HSBC Corporate Trustee Company (U.K.) 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 dated March 26, 2010 and made between the Issuer, the Trustee and the Agents (as defined below) (as amended from time to time, the "Agency Agreement") are available for inspection during usual business hours at the specified offices of each of the Trustee and the European issuing and 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 "European Issuing and Paying Agent", the "Paying Agents" (which expression shall include the European Issuing and Paying Agent, the Paying Agent in New York (the "New York Paying Agent"), the Paying Agent in Luxembourg (the "Luxembourg Paying Agent") and the principal paying agent (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 Final Terms (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 Final Terms

(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 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.

Registered Notes and Bearer Notes may be Fixed Rate Notes, Floating Rate Notes, Index Linked Interest Notes, Zero Coupon Notes, Dual Currency Notes and other types of Notes, depending upon the interest, redemption and paying conditions specified in the Final Terms and in the Notes. In addition, Foreign Currency Constraint Provisions, Sovereign Event Provisions and Credit Event Provisions may apply to the Notes if specified in the Final Terms.

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 are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes, in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. U.S. federal income tax law imposes significant limitations on a U.S. person holding debt instruments issued in bearer form. In general, such limitations could include taxation of gains recognized on the sale, retirement or other disposition of Bearer Notes at the rates applicable to ordinary income (rather than capital gains) and the disallowance of a deduction for loss recognized on such a disposition of Bearer Notes. Prospective purchasers are urged to consult their own tax advisors regarding the purchase, ownership and disposition of Bearer Notes.

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

(b) *Denomination*: "Specified Denomination" means the denomination or denominations specified on such Note, provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under Directive 2003/71/EC of the European Parliament and of the Council, the minimum Specified Denomination shall be at least €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). In addition, in the case of any Registered Notes which are resold pursuant to Rule 144A under the United States Securities Act of 1933, as amended, the minimum Specified Denomination shall be at least U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof or, in respect of Notes denominated in a Specified Currency other than U.S. dollars, its approximate U.S. dollar equivalent. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination (if any).

So long as the Notes are represented by a Temporary Global Note, Permanent Global Note, DTC Global Note or International Global Note Certificate (each as defined in the Trust Deed) and the relevant clearing system(s) so permit, the Notes shall be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and integral multiples of the Tradable Amount provided hereon.

(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. Subject to the provisions of Condition 15(a), 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) *Final Terms 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 Final Terms issued in respect of a Tranche which includes such Note (each, a "Final Terms"). Capitalized terms used in these Conditions in respect of a Note, and not specifically defined in these Conditions, have the meanings given to them in the applicable Final Terms issued in respect of a Tranche which includes such Note. Additional provisions relating to the Notes may be contained in the Final Terms or specified on the Note and will take effect as if originally specified in these Conditions. The Final Terms in respect of Index Linked Interest Notes, Installment 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 such registration or transfer.

(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

The Notes and Coupons of all Series 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 Notes and the Coupons of all Series shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, and at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations of the Issuer subject to certain limitations on payments if there is a Foreign Currency Constraint Event, a Sovereign Event or a Credit Event as provided for in Conditions 15(a), 15(b) and 15(c), respectively.

Subject to Conditions 15(b) or 15(c) (if applicable), the Noteholder will have no rights, title or interest in any Governmental Obligations or any Credit Obligations, respectively.

4. Negative Pledge and Covenants

(a) *Negative Pledge:* So long as any Note remains outstanding (as defined in the Trust Deed) the Issuer will not, and will procure that none of its Material Subsidiaries will, create or permit to subsist any Security upon the whole or any part of their respective undertaking or assets, present or future (including any uncalled capital), to secure (i) any of their respective Public External Indebtedness; (ii) any of their respective Guarantees in respect of Public External Indebtedness; or (iii) the Public External Indebtedness or Guarantees in respect of the Public External Indebtedness of any other person; without at the same time or prior thereto securing the Notes equally and ratably therewith or providing such other security for the Notes as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders. The Issuer or any Material Subsidiary shall not be required to equally and ratably secure the Notes if the Security consists of any of the following:

(A) in existence on date hereof to the extent that it secures Public External Indebtedness outstanding on such date, and any extension, renewal or replacement hereof, provided that the aggregate amount of Public External Indebtedness permitted to be secured under the clause (a) shall not exceed the amount so secured on the date hereof;

(B) granted in connection with any financing related to (1) any payment rights or other receivables of the Issuer or any Material Subsidiary or (2) amounts paid or payable pursuant to payment instructions (including interbank payment instructions or advice of payment) received or to be received by the Issuer or any Material Subsidiary; or

(C) granted by means of any payment made to a trustee of amounts due under any Public External Indebtedness which has the benefit of an insurance policy (or other arrangement having similar effect including, without limitation, any Security granted in connection with a letter of credit) to provide for payments to holders of such Public External Indebtedness during any period in respect of which the trustee must wait before making a claim or receiving payment in respect thereof under any such insurance policy (or arrangement having similar effect) in circumstances where the Issuer (or any Material Subsidiary) is subject to restrictions on its or their ability to convert *reais* into the currency specified for scheduled payments on such Public External Indebtedness or to use, transfer, control or access funds designated for such scheduled payments due to actions or measures taken or approved (or the failure to take or approve actions or measures) by the Brazilian government.

(b) *Transactions with Affiliates*: The Issuer will not, and will procure that none of its Material Subsidiaries, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or Guarantee with, or for the benefit of, any Affiliate (each of the foregoing, an "Affiliate Transaction"), unless such Affiliate Transaction is on terms that are no less favorable to the Issuer or such Material Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or the Material Subsidiary with an unrelated Person. Notwithstanding the foregoing, the following items shall not be deemed to be Affiliate Transactions: (i) any employment agreement entered into by the Issuer or any of its Material Subsidiaries in the ordinary course of business and consistent with the past practice of the Issuer or such Material Subsidiary, (ii) payment of reasonable directors' fees to Persons who are not otherwise Affiliates of the Issuer and (iii) any transactions between the Issuer and its wholly-owned Material Subsidiaries.

(c) *Consolidation, Merger or Sales of Assets*: The Issuer shall not, without the consent of the holders of 75 per cent. in nominal amount of the outstanding Notes of each Series, consolidate with or merge into any other corporation or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties or assets to any other Person unless:

(i) the corporation formed by such consolidation or into which the Issuer is merged or the Person which acquires by conveyance or transfer all or substantially all of the properties and assets of the Issuer (the "Successor Corporation") shall agree in writing to assume the due and punctual payment of the principal of and interest on all the Notes and all other obligations of the Issuer under the Trust Deed and the Notes;

(ii) immediately after giving effect to such transaction, no Event of Default with respect to any Note shall have happened and be continuing;

(iii) the Issuer shall have delivered to the Trustee (A) a certificate signed by an executive officer of the Issuer stating that such consolidation, merger, conveyance or transfer complies with this Condition 4(c) and that all conditions precedent herein provided for relating to such transaction have been complied with, and (B) opinions addressed to and in a form satisfactory to the Trustee of independent counsel of recognized standing as to such laws as may be reasonably requested by the Trustee to the effect that the Successor Corporation has validly assumed the obligations to be assumed by it pursuant to clause (i) above and that the Trust Deed and each Series of Notes constitute legal, valid and binding obligations of the Successor Corporation, enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization or other laws of general applicability relating to or affecting the enforcement of creditors' rights and to general principles of equity; and

(iv) the Successor Corporation shall expressly agree (A) to indemnify each holder of a Note, Coupon or Talon against any tax, assessment or governmental charge thereafter imposed on such holder as a consequence of such consolidation, merger, conveyance or transfer, and (B) to pay any additional amounts as may be necessary in order that the net amounts received by the holders of the Notes (and Coupons, if any) after any withholding or deduction of any such tax, assessment or other governmental charge imposed by any authority having power to tax to which the Successor Corporation is subject shall equal the respective amounts of principal and interest (if any) which would have been receivable in respect of the Notes (and Coupons, if any) in the absence of such consolidation, merger, conveyance or transfer.

(d) *Redemption*: No Successor Corporation shall have the right to redeem any Series of Notes unless the Issuer would have been entitled to redeem the Notes in similar circumstances.

(e) *Consolidation and Merger*: Upon any consolidation, merger, conveyance or transfer in accordance with Condition 4(c), the Successor Corporation shall succeed to, and be substituted for, and may exercise every right and power of, and shall assume all of the obligations of the Issuer under the Notes and the Trust Deed, with the same effect as if the Successor Corporation had been party to the Trust Deed at the date of its execution and named herein as the Issuer of the Notes.

(f) Definitions*:* For the purposes of these Conditions:

"Affiliate" in respect of a specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control of such specified Person. For the purpose of Condition 4(c) only, "Affiliate" shall also mean any beneficial owner of share capital representing 10 per cent or more of the total voting share capital (on a fully diluted basis) of the Issuer or of warrants or similar instruments issued by the Issuer entitling the holder to purchase 10 per cent or more of such voting share capital (if such warrants or instruments are exercisable at the time of such transaction) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Consolidated Assets" means, as at any date of determination the aggregate of all the assets of the Issuer and its Subsidiaries, determined on a consolidated basis in accordance with accounting principles generally accepted in, and pursuant to the relevant laws of, Brazil.

"Consolidated Revenues" means, as of any date of determination, all revenue of the Issuer and its Subsidiaries determined on a consolidated basis in accordance with accounting principles generally accepted in, and pursuant to the relevant laws of, Brazil.

"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.

"External Indebtedness" means Indebtedness which is payable (or may be paid) (i) in a currency or by reference to a currency other than the currency of the Federative Republic of Brazil ("Brazil") and (ii) to a person resident or having its principal place of business outside Brazil.

"Guarantee" means any obligation of a person to pay the Indebtedness of another person including without limitation:—

(i) an obligation to pay or purchase such Indebtedness;

(ii) an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) an indemnity against the consequences of a default in the payment of such Indebtedness; or

(iv) any other agreement to be responsible for such Indebtedness.

"Indebtedness" means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing).

"Material Subsidiary" means, at the date of determination, any Subsidiary of the Issuer that, together with its Subsidiaries, on a consolidated basis, (i) had total assets (exclusive of assets owed to such Subsidiary by the Issuer or other Subsidiaries of the Issuer) in excess of 5 per cent of Consolidated Assets or (ii) accounted for more than 5 per cent of Consolidated Revenues, in each case determined by reference to the consolidated financial statements of the Issuer and its Subsidiaries for the most recently completed fiscal quarter prior to the date of determination.

"Person" means any individual, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having a separate legal personality.

"Public External Indebtedness" means any External Indebtedness which is in the form of, or represented by, bonds, notes or other securities which are for the time being or are capable of being or intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

"Security" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, any equivalent created or arising under the laws of Brazil.

"Subsidiary" of any company or corporation means, at any particular time, any company or corporation:

(i) more than 50 per cent of the issued share equity capital of which, or more than 50 per cent of the issued share capital carrying voting rights of which, is beneficially owned, directly or indirectly, by the first-mentioned company or corporation; or

(ii) which is a Subsidiary of another Subsidiary of the first-mentioned company or corporation.

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 nominal amount from (and including) the Interest Commencement Date (as defined in Condition 5(III)) in respect thereof to (but excluding) the next succeeding Interest Payment Date specified on such Note 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 less than 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 or Index Linked Interest Notes

This Condition 5(II) applies to a Note in respect of which the Floating Rate Note Provisions or Index Linked Interest Note Provisions are specified on such Note as being applicable (a "Floating Rate Note" or "Index Linked Interest Note," respectively).

(a) *Specified Interest Payment Dates*: Each Note bears interest on its 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 or variable rate which may be based on one or more interest rate or exchange rate indices, formulae or as otherwise specified on such Note. The dates on which interest shall be payable on a Note 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) In the case of a Note which specifies that the Rate of Interest is to be determined from a specified page, section or other part of a particular information service (each as specified on such Note), the relevant Rate of Interest in respect of each Interest Period (as defined in Condition 5(III)) will, subject as provided below, be either:

(A) (x) the offered quotation; or

(y) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (as defined in Condition 5(III)) which appears or appear, as the case may be, on that page, section or other part of such information service as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on that page, section or other part of such information service, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(B) if that page, section or other part of such information service is not available or if, Condition 5(II)(b)(i)(A)(x) applies and no such offered quotation appears on that page, section or other part of such information service or if Condition 5(II)(b)(i)(A)(y) above applies and fewer than three such offered quotations appear on that page, section or other part of such information service in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks (as defined in Condition 5(III)) or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(C) if Condition 5(II)(b)(i)(B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period).

(ii) 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 be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as specified on such Note) the Margin (if any). For the purposes of this sub-paragraph (ii), "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:

(A) the Floating Rate Option is as specified on such Note;

(B) the Designated Maturity is a period specified on such Note; and

(C) 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 (ii), "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 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)) 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 18) 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) without notice in the event of an extension or shortening of the Interest Period.

(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 or any person appointed by it for the purpose may 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*: 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. 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.

"Consolidated Net Worth" of a Person is the sum of paid-in capital, reserves and retained earnings of such person, determined on a consolidated basis in accordance with Brazilian GAAP.

"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_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" 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 D1 is greater than 29, in which case D2 will be 30;

(v) if "30E/360" or "Eurobond Basis" is specified on such Note, 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_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" 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 D2 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_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (A) that day is the last day of February or (B) such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (A) that day is the last day of February but not the Maturity Date or (B) such number would be 31, in which case D2 will be 30; and

(vii) "Actual/Actual-ICMA" 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 Date" means the date specified as such on the relevant Note or, if none is so specified, the Interest Payment Date;

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination 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.

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

"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 Additional 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).

"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 Amortized Face Amount (as defined in Condition 6(d)(iii)) of such Note as determined in accordance with Condition 6(d)(iii). 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 Amortization 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) Dual Currency Notes

This Condition 5(V) applies to a Note in respect of which the Dual Currency Provisions are specified on such Note as being applicable (a "Dual Currency Note").

If the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

6. Redemption and Purchase

(a) *Final Redemption*: Unless previously redeemed or purchased and cancelled, 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 (which may be based on one or more specified indices or formulae) on the applicable Maturity Date or, if such Note has applicable to it on the Maturity Date an interest basis which is specified on such Note as Floating Rate, on the applicable Specified Interest Payment Date falling in the applicable Redemption Month specified on such Note.

(b) *Purchases*: The Issuer and any of its Subsidiaries may at any time purchase Notes at any price (provided that in the case of Bearer Notes they are purchased together with all unmatured 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 Notes so purchased, including Notes purchased under Conditions 6(e) and 6(f), 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.

(c) *Redemption for Taxation Reasons*: Notes of any Series may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of a Fixed Rate Note or a Zero Coupon Note) or on any Interest Payment Date (in the case of a Floating Rate Note), 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 Zero Coupon Notes) at their Amortized Face Amount (as determined in accordance with Condition 6(d)(ii)), if (i) the Issuer certifies to the Trustee (in the manner described below) 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 Notes as a result of any change in, or amendment to, the laws or regulations of Brazil, the Cayman Islands or any political subdivision or any authority thereof or therein or any other jurisdiction having power to tax in which the Issuer is organized, doing business or otherwise subject to the power to tax (any of the aforementioned being a "Taxing Jurisdiction"), 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 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 Zero Coupon Notes*: This Condition 6(d) applies to Zero Coupon Notes.

(i) The amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon 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 Amortized Face Amount (calculated as provided below) of such Zero Coupon Note.

(ii) Subject to Condition 6(d)(iii), the "Amortized Face Amount" of any Zero Coupon Note shall be the sum of (A) the Reference Price specified on such Zero Coupon Note and (B) the aggregate amortization of the difference between the Reference Price and the nominal amount of such Zero Coupon Note from the Issue Date to the date on which the Zero Coupon Note becomes due and payable calculated at a rate per annum (expressed as a percentage) equal to the Amortization Yield specified on such Zero Coupon Note applied to the Reference Price in the manner specified on such Zero Coupon 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.

(iii) If the amount payable in respect of any Note upon redemption of such Zero Coupon 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 Note shall be the Amortized Face Amount of such Zero Coupon Note as defined in Condition 6(d)(ii), except that Condition 6 shall have effect as though the reference therein to the date on which the Zero Coupon Note becomes due and payable were replaced by a reference to the Relevant Date (as defined in Condition 8). The calculation of the Amortized Face Amount in accordance with this Condition 6(d)(iii) 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 Note together with any interest which may accrue on such Zero Coupon Note in accordance with Condition 5(IV).

(e) *Redemption at the Option of the Issuer (Call Option)*: Subject to the provisions of Conditions 15(b)(i) and 15(c)(i), if so provided on a Note, the Issuer may, subject to compliance with all relevant laws, regulations and directives, on giving to the holder of such 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 Note), redeem all or, if so specified on such Note, some of the Series of Notes of which such Note forms part, on the Optional Redemption Date(s) specified on such Notes (which shall, in the case of a Note which has applicable to it at the time of redemption an interest basis which is specified on such 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; provided, however, that if the Issuer so elects, the Issuer may, in lieu of redeeming such Notes, procure that any person designated by the Issuer may purchase such Notes on the Optional Redemption Date(s) specified in the Final Terms at the Optional Redemption Amount, together with an amount equal to interest accrued to (but excluding) the date fixed for redemption. All 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 only some of the Notes of a Series are to be redeemed at any time, the 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 serial numbers and nominal amount of the 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 stock exchange requirements.

(f) *Redemption at the Option of Noteholders (Put Option)*: If so provided on a Note, the Issuer shall, subject to compliance with all relevant laws, regulations and directives, at the option of the holder of such Note, redeem such Note on the Optional Redemption Date(s) specified on such Note (which shall, in the case of a Note which has applicable to it at the time of redemption an interest basis which is specified on such 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; provided, however, that if the Issuer so elects, the Issuer may, in lieu of redeeming such Notes, procure that any person designated by the Issuer may purchase such Notes on the Optional Redemption Date(s) specified in the Final Terms at the Optional Redemption Amount, together with an amount equal to interest accrued to (but excluding) the date fixed for redemption. To exercise such option the holder must deposit such 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 Note) prior to the relevant date for redemption. No 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 Note of the commencement of any period for the deposit of Notes for redemption pursuant to this Condition 6(f) shall be given by the Issuer to Noteholders in accordance with Condition 18.

(g) *Redemption Resulting From a Sovereign Event or a Credit Event*: If Sovereign Event Provisions or Credit Event Provisions are specified in the relevant Final Terms, the Issuer may, at its discretion, redeem all of the Series of the Notes pursuant to the applicable mechanisms and procedures set forth in Condition 15 below. Any further provisions relating to the redemption of Notes subject to a Sovereign Event or a Credit Event will be set out in the relevant Final Terms.

(h) *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(h) 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:

(A) 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;

(B) 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

(C) 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 the New York 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 the New York Paying Agent (or at the specified office of any other 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 "Additional Financial Centers" and:

(A) (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, a day on which dealings may be carried on in the Relevant Financial Centre of such Specified Currency; or

(B) 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 European Issuing and Paying Agent to the person shown on the Register at the close of business on (1) in the case of a Series of Registered Notes where some or all of the Registered Notes of such Series are registered in the name of or in the name of a nominee for the Depositary Trust Company ("DTC"), the fifteenth day on which DTC is open for business (each, a "DTC business day") (subject to Condition 7(b)(iii)), or (2) in the case of a Series of Registered Notes where such Registered Notes are registered in the name of, or in the name of a nominee of any clearing system or any other entity or person other than DTC, the fifteenth day before the due date for payment thereof (in each case, the "Record Date"):

(A) 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

(B) as may otherwise be specified on such Notes as an Alternative Payment Mechanism.

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 European Issuing and 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 European Issuing and 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 European Issuing and 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, 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 European Issuing and Paying Agent in the relevant Specified Currency in accordance with the following provisions. The amounts in such Specified Currency payable by the European Issuing and 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 European Issuing and 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 twelve DTC business days prior to the relevant payment date, to receive that payment in such Specified Currency. The European Issuing and 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, which shall not be unreasonably withheld or delayed, 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, a Transfer Agent and a paying agent in New York City, (iii) a European Issuing and Paying Agent, (iv) a Paying Agent and a Transfer Agent having a specified office in a European city which, so long as the Notes are admitted to listing on Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that exchange so require, shall be Luxembourg, (v) 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 any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November, 2000, (vi) a Calculation Agent and (vii) 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 18.

(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 to the relevant Paying Agent 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 nominal amount 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) 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 Reference Date or, as the case may be, the 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).

(g) *Indemnification*: In the case of Notes and Coupons issued by the Issuer, every payment of any sum due in respect of the Notes or Coupons made to the Principal Paying Agent as provided for herein shall, to such extent, be a good discharge to the Issuer. The Issuer will indemnify each Noteholder and Couponholder against any failure on the part of the Paying Agents to pay any sum due in respect of the Notes or Coupons within 15 days of receipt from relevant Noteholder(s) or Couponholder(s) of notice of such failure on the part of the Paying Agents to pay such sum due. These indemnities constitute a separate and independent obligation from the Issuer’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any judgment or order. No proof or evidence of any actual loss may be required.

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 a Taxing Jurisdiction, 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:

(a) to a holder (or to a third party on behalf of a holder) where such holder is liable for such Taxes in respect of such Note or Coupon by reason of it having some connection with a Taxing Jurisdiction other than the mere holding of such Note or Coupon or the receipt of the relevant payment in respect thereof; or

(b) to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory, requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Definitive Registered Note representing it) or Coupon is presented for payment; or

(c) 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

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) (except in the case of Registered Notes) 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; or

(f) for Taxes imposed other than by way of withholding or deduction.

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 18 that such moneys have been so received and are available for payment. References in these Conditions to "principal" shall be deemed to include "Amortized 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 events set out in this Condition 9 occurs the Trustee at its discretion may in respect of the Notes of any Series, and (i) in the case of an event set forth in paragraphs (a), (d), (e), (f), (g) or (h) of this Condition 9, if so requested by holders of at least 25 per cent and (ii) in the case of an event set forth in paragraphs (c), (i), (j), (k), (l) or (m) of this Condition 9, if so requested by holders of at least one-third, in nominal amount of the Notes of such Series then outstanding, or, in any case, if so directed by an Extraordinary Resolution of Noteholders of such Series shall, (subject in each case to being indemnified and/or secured and/or prefunded to its reasonable satisfaction) 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 Amortized Face Amount of such Zero Coupon Notes:

(a) *Non-payment*: subject to the provisions of Conditions 15(a)(vi), 15(b) and 15(c), the Issuer fails to pay any principal of, any premium on or interest on any of the Notes when due and payable and, in respect of any premium or interest on any of the Notes such failure continues for a period of 7 days; or

(b) *Breach of Other Obligations*: the Issuer does not perform or breaches any covenant of the Issuer set out in the Trust Deed (other than a covenant a default in whose performance or whose breach is specifically provided for elsewhere in this Condition or which has been expressly included in the Trust Deed solely for the benefit of Notes other than the Notes of such Series), and such default or breach continues for a period of 60 days after there has been given, by registered or certified mail, to the Issuer by the Trustee or to the Issuer and the Trustee by the Noteholders of at least 20 per cent in nominal amount of the outstanding Notes of such Series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(c) *Cross Default*: the Issuer defaults under any note, bond, debenture, security or other evidence of indebtedness for money borrowed by the Issuer (including a default with respect to the Notes of any Series other than such Series) or any Subsidiary, having an aggregate principal amount outstanding of at least U.S.$40,000,000, or under any mortgage, trust deed or instrument (including the Trust Deed) under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Issuer or any Subsidiary having an aggregate principal amount outstanding of at least U.S.$40,000,000, whether such indebtedness now exists or shall hereafter be created, which default: (i) shall constitute a failure to pay any portion of the principal of such indebtedness when due and payable after the expiration of any applicable grace period with respect thereto or (ii) shall have resulted in such indebtedness becoming or being declared due and payable, without, in the case of Clause (ii), such indebtedness having been discharged or such acceleration having been rescinded or annulled, in each such case within a period of 10 days after there shall have been given, by registered or certified mail, to the Issuer by the Trustee or to the Issuer and the Trustee by the Noteholders of at least 10 per cent. in nominal amount of the outstanding Notes of such Series a written notice specifying such default and requiring the Issuer or any Subsidiary to cause such indebtedness to be discharged or cause such acceleration to be rescinded or annulled, as the case may be, and stating that such notice is a "Notice of Default" hereunder; or

(d) *Winding-up*: a court of competent jurisdiction shall appoint a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the Issuer or a Material Subsidiary for any material part of the property of the Issuer taken as a whole with its Subsidiaries, or shall order the winding-up or liquidation of the affairs of the Issuer or a Material Subsidiary; or a resolution is passed for the winding-up or dissolution of the Issuer or a Material Subsidiary; or

(e) *Bankruptcy*: the Issuer or a Material Subsidiary shall commence a voluntary case under any applicable bankruptcy, reorganization, insolvency or other similar law now or hereafter in effect (otherwise than for the purposes of a reconstruction or amalgamation while the Issuer or such Material Subsidiary is solvent if such reconstruction or amalgamation is undertaken for purposes unrelated to seeking relief from creditors, the composition or readjustment of debts, and assignments for the benefit of creditors), or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the Issuer or a Material Subsidiary or for any material part of the property of the Issuer (taken as a whole with its Subsidiaries), or make any general assignment for the benefit of the creditors of the Issuer or a Material Subsidiary; or

(f) *Judgment*: a final judgment or judgments for the payment of money shall have been entered by a court of competent jurisdiction against the Issuer or any Subsidiary and remains undischarged for a period (during which execution shall not be effectively stayed) of 60 days, provided that the aggregate amount of all such judgments at any time outstanding (to the extent not paid or to be paid by insurance) exceeds U.S.$40,000,000 or the equivalent thereof in any combination of currencies; or

(g) *Enforcement Proceedings*: a distress, attachment, execution, seizure before judgment or other legal process is levied or enforced upon or sued out against all or a material part of the property of the Issuer (taken as a whole with its Subsidiaries) and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or

(h) *Ownership*: Banco Santander, S.A. ceases to own, directly or indirectly, any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interests in (however designated) equity of the Issuer (including any of any class or classes (however designated) which are preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation of the Issuer, over shares of any other class of the Issuer, but excluding any debt securities convertible in such equity) representing at least 51 per cent of the total voting power of the voting stock being all classes of shares or other interests (including partnership interests) of the Issuer then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustee thereof, of the Issuer; or

(i) *Moratorium*: an agreement upon or declaration of a moratorium in respect of the payment of any Relevant Debt of the Issuer or any of its Material Subsidiaries is reached or made; or

(j) *Nationalization*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalization of all or (in the reasonable opinion of the Trustee) a material part of the assets of the Issuer (taken as a whole with its Subsidiaries); or

(k) *Authorizations* and Consents: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, 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 Notes, the Coupons and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable or (iii) to make the Notes, the Coupons and the Trust Deed admissible in evidence in the courts of Brazil is not taken, fulfilled or done; or

(l) *Illegality*: it becomes unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed; or

(m) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (d), (e), (f) or (g);

provided that in the case of paragraphs (b), (f), (g), (k) and (l) and, in the case of Subsidiaries only, paragraphs (d) and (e), 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 and Waiver

(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 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 per cent 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 per cent 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 Amortized 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 per cent, or at any adjourned meeting not less than 25 per cent, 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 per cent of the votes cast. A written resolution of holders of not less than 75 per cent 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 and the Issuer 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 authorization 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, authorization 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) *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 per cent 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 reasonable 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 London or Luxembourg (in the case of Bearer Notes, Coupons and Talons) or the Transfer Agent in New York City or Luxembourg (in the case of Definitive 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. Foreign Currency Constraint, Sovereign Event and Credit Event

(a) *Foreign Currency Constraint*: If Foreign Currency Constraint Provisions are specified in the relevant Final Terms, then notwithstanding any provisions to the contrary contained herein, the following provisions will apply to the Notes:

(i) If a Foreign Currency Constraint Event (as defined below) shall have occurred, the Issuer shall give to the Trustee and the European Issuing and Paying Agent within two São Paulo Business Days (as defined below) after such event, a certificate signed by two authorized signatories certifying the existence of the Foreign Currency Constraint Event. The Issuer shall, as soon as practicable thereafter, give notice of such certification and its contents in accordance with Condition 18 and shall immediately appoint a Paying Agent with a specified office in the city of São Paulo, Brazil acceptable to the Trustee (for the purposes of this Condition 15, the "São Paulo Paying Agent"). In this event, any Noteholder may, for a period of 30 days after the date of publication of such notice (the "Election Period"), elect to exchange ("Exchange") the Note (the "Original Note") and the related unmatured Coupons (if any) and unexchanged Talons (if any) for an equivalent nominal amount in the Specified Currency of Exchanged Notes (as defined below) and related unmatured Coupons (if any) and unexchanged Talons (if any). To make such election, the holder must deposit the Original Note (together with all related unmatured Coupons (if any) and unexchanged Talons (if any)) with any Paying Agent or, in the case of Registered Notes, any Transfer Agent, together with a duly completed notice of election ("Election Notice") in the form obtainable from any Paying Agent or Transfer Agent, as the case may be, within the Election Period. No Original Note so deposited and election made may be withdrawn without the prior consent of the Issuer. All duly completed and valid Election Notices received by the Paying Agents or Transfer Agents, as the case may be, within the Election Period shall, on receipt, be deemed to have been received on the first day of the Election Period.

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Exchanged Note" means a Note with terms and conditions identical to the terms and conditions of the Original Note for which it was exchanged, save that:

(A) all payments due in respect of such Exchanged Note shall be made by the Issuer, to the extent permitted by Brazilian law, in the lawful currency of Brazil when due (a "Due Date") or, where a Due Date occurs before the date of Exchange (the "Exchange Date"), as soon as practicable after the Exchange Date and without any additional amount in compensation for late payment against presentation (and, if applicable, surrender) of such Exchanged Note or related Coupon in accordance with Condition 7 in the case of Bearer Notes (subject to paragraph (iii) below) and in the case of Registered Notes payment of principal and interest will be made to the person shown on the Register in respect of the Exchanged Notes at the close of business on the date of issue of such Exchanged Notes and in the case of payments of principal, against surrender of the relevant Definitive Registered Note representing the Exchanged Note at the specified office of any Transfer Agent and otherwise in accordance with Condition 7 (subject to paragraph (iii) below);

(B) the amount of any payment due in respect of such Exchanged Note shall be that amount in the lawful currency of Brazil, as determined by the São Paulo Paying Agent, having regard to the provisions of this Condition 15(a), which would be required to purchase the amount of such payment in the Specified Currency at the rate of exchange on the São Paulo Business Day immediately prior to the Due Date (or, where the Due Date precedes the Exchange Date, on the São Paulo Business Day immediately prior to the date of payment) (A) if the Specified Currency is U.S. dollars, as shown on the Central Bank of Brazil computer information system under the title "SISBACEN PTAX-800, Option 5-L" or (B) if the Specified Currency is a currency other than U.S. dollars, at the corresponding rate for the applicable Specified Currency (the "Corresponding Rate"), the source of which Corresponding Rate will be specified in the applicable Final Terms. If no such rate of exchange is available, the applicable rate of exchange shall be an average of the Brazilian currency exchange rates on such São Paulo Business Day for the purchase of the Specified Currency notified to the São Paulo Paying Agent by three leading Brazilian banks selected by the São Paulo Paying Agent in its discretion; and

(C) all payments in respect of the Exchanged Note shall be made by transfer to a Brazilian currency account maintained by the payee with a branch in São Paulo, Brazil.

"Foreign Currency Constraint Event" means any law, regulation, directive or communication imposed or issued by the Brazilian government or the Central Bank of Brazil or any other competent authority in Brazil imposing foreign exchange controls or other restrictions or any refusal to act or delay in acting by any such party, which has the effect of prohibiting, preventing or delaying the remittance of the Specified Currency (whether in respect of principal, interest, additional amounts payable pursuant to these Conditions or otherwise) to or by the Principal Paying Agent in respect of the Original Notes when due.

"São Paulo Business Day" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets, are open for business in the city of São Paulo, Brazil.

(ii) On termination of the Foreign Currency Constraint Event, Exchanged Notes shall be exchanged for an equivalent amount of Original Notes provided that, prior to such exchange, all payments due in respect of the Original Notes and such Exchanged Notes shall have been made by the Issuer. Such exchange shall be effected by the holders of Exchanged Notes presenting and surrendering such Exchanged Notes (together with all unmatured Coupons and unexchanged Talons (if any)) at any time after such termination at the specified office of any Paying Agent or Transfer Agent and, in respect of Registered Notes, the Registrar making the relevant entries in the Register relating to the Original Notes and the Exchanged Notes.

(iii) During the period in which a Foreign Currency Constraint Event is in effect, the Issuer shall take such steps as are legal under the laws and regulations of Brazil to make payments in respect of Original Notes not exchanged for Exchanged Notes (if any) in the Specified Currency from Brazil as promptly as such laws and regulations permit.

(iv) Notwithstanding anything in this Condition 15(a) to the contrary, during the period in which a Foreign Currency Constraint Event is in effect, any payments of principal of (but not interest on) the Original Notes which are not paid by reason of the imposition of such Foreign Currency Constraint Event shall bear interest in the Specified Currency at the rate of interest until the Foreign Currency Constraint Event is eliminated or, if earlier, such sums are duly paid in full, provided that the Issuer complies at all times with its obligations set forth in this Condition 15(a).

(v) Notwithstanding anything in this Condition 15(a) to the contrary, no Noteholder or Couponholder shall be precluded by this Condition 15(a) from presenting any Note or Coupon for payment at a time when a Foreign Currency Constraint Event is in effect.

(vi) It shall not be an Event of Default under these Conditions to the extent that any Event of Default described in Condition 9(a) and 9(l) (but solely with respect to payment obligations) shall have occurred with respect to the Issuer solely as a result of a Foreign Currency Constraint Event, provided that the Issuer shall have fully complied with its obligations under this Condition 15(a). The Issuer shall not be in breach of any payment obligation in the Specified Currency relating to the Notes or the Coupons (if any) to the extent payment in the Specified Currency is not made by reason solely of such Foreign Currency Constraint Event; and no Noteholder or Couponholder shall be entitled to take action against the Issuer to enforce any rights against the Issuer which such Noteholder or Couponholder would, but for the provisions of this Condition 15(a), have had in respect of such payment.

(b) *Sovereign Event*: If Sovereign Event Provisions are specified in the relevant Final Terms, then notwithstanding any provisions to the contrary contained herein, the following provisions will apply to the Notes:

(i) In the event that, on or prior to any Interest Payment Date, the Maturity Date, or earlier redemption date, as the case may be, of any Note, the Government of Brazil, its agencies, instrumentalities or entities (including the Central Bank of Brazil, the National Monetary Council of Brazil or any other competent authority in Brazil) by means of any law, regulation, ruling, directive, interpretation or communication, whether or not having the force of law, takes any action (a "Governmental Action") which legally or de facto, (x) modifies or changes, in the sole opinion of the Issuer, any of the material terms of any of the Governmental Obligations (as defined below); or (y) results in the non-payment of any of the Governmental Obligations when originally due (any such occurrence in clauses (x) or (y) being a "Sovereign Event"), then the Issuer shall give to the Trustee and the European Issuing and Paying Agent within five São Paulo Business Days of the occurrence of a Sovereign Event, a certificate signed by two authorized signatories of the Issuer certifying the existence of the Sovereign Event and which may, if the Issuer so specifies in such certificate, constitute irrevocable notice of the Issuer's intention to exercise its option to redeem all of the Series of the Notes subject to the Sovereign Event provisions. The Issuer shall, as soon as practicable thereafter, give notice of such certification and its contents in accordance with Condition 18. All Notes in respect of which the Issuer exercises its option to redeem shall be redeemed in accordance with sub-paragraph (ii)(A) below on the date specified in such notice which shall be not less than 14 days nor more than 45 days from the date such notice is given.

(ii) If a Governmental Action occurs on or prior to any Interest Payment Date, Maturity Date, or earlier redemption date, as the case may be:

(A) the obligation of the Issuer to pay interest under Condition 5 falling due on such Interest Payment Date, Maturity Date, or earlier redemption date, as the case may be, including interest that is accrued prior to the Governmental Action, is terminated; and

(B) the Issuer may, at its option, deliver to or to the order of the holders (to the extent and in the manner permitted by applicable law) on the Maturity Date or earlier redemption date, as the case may be, at the São Paulo Paying Agent (or such other bank in São Paulo, Brazil as the Issuer shall determine or such other paying agent appointed for such purpose and specified in the applicable Final Terms and notified to the holders), (x) the Governmental Obligations specified in the applicable Final Terms or, if no Governmental Obligations are so specified, an amount of Governmental Obligations selected by the Issuer in its sole discretion due and payable as of or prior to the Maturity Date pursuant to terms and conditions in existence prior to the Sovereign Event, in a face amount equivalent to the outstanding nominal amount or an amount calculated in accordance with Condition 6(d), as the case may be, due in respect of the Notes (provided, however, that if the Governmental Obligations are denominated in a currency different than the Specified Currency, then for the purpose of determining the face amount equivalent to the outstanding nominal amount, such amount will be determined as follows: (i) if the Governmental Obligations are denominated in *reais*, the outstanding nominal amount shall be converted to *reais* at the foreign exchange commercial rate based on the sale rate for converting *reais* into the Specified Currency shown on the Central Bank of Brazil computer information system under the title "SISBACEN PTAX-800, Option 5" on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be (or, if no such rate is available, the rate determined by the Issuer in its sole discretion on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be), and (ii) if the Governmental Obligations are denominated in a currency other than *reais*, the outstanding nominal amount shall be converted to such currency at the foreign exchange commercial rate specified in the applicable Final Terms); or (y) the *Reais* Amount (as defined below); whereupon the Issuer's obligations under the Notes shall be deemed fully satisfied and discharged.

The Issuer shall notify the European Issuing and Paying Agent, the Principal Paying Agent, the Trustee and the holders of the Notes of its decision to exercise its option to deliver Governmental Obligations or reais, as the case may be, in accordance with this Condition 15(b). Failure by the Issuer to deliver any such certificate or notice will not prejudice the rights and obligations of the Issuer or the holders hereunder.

In this Condition 15(b), unless the context otherwise inquires, the following defined terms shall have the meanings set out below:

"Governmental Obligations" means, in respect of a Note, the debt obligations specified in the applicable Final Terms or, if no Governmental Obligations are so specified, any one or more of the following debt obligations selected by the Issuer in its sole discretion: "Letras do Tesouro Nacional", "Letras Financeira do Tesouro", "Nota do Banco Central, Serie Especial" and "Nota do Tesouro Nacional — Serie D", in each case as such obligations may be replaced by other obligations as determined by the Issuer in its sole discretion.

"*Reais* Amount" means the market value on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be, of the Governmental Obligations specified in the applicable Final Terms or, if no Governmental Obligations are so specified, such Governmental Obligations selected by the Issuer in its sole discretion which are due and payable as of or prior to the Maturity Date, pursuant to terms and conditions in existence prior to the Sovereign Event, in a face amount equivalent to the outstanding nominal amount or an amount calculated in accordance with Condition 6(d), as the case may be, due in respect of the Notes converted to reais at the foreign exchange commercial rate based on the sale rate for converting reais into the Specified Currency shown on the Central Bank of

Brazil computer information system under the title "SISBACEN PTAX-800, Option 5" on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be (or, if no such rate is available, the rate determined by the Issuer, in its sole discretion, on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be). The market value of the relevant Governmental Obligations shall be determined by the Issuer, in its sole discretion, having regard to such factors as may be determined by the Issuer, in its sole discretion, including, but not limited to, market valuation and settlement conventions and conditions prevailing at the time of its determination, and shall be net of applicable commissions and taxes.

(iii) Each holder will be required to make such arrangements as it deems appropriate, at its own cost and risk, in order to receive payments in *reais* or the delivery of the Governmental Obligations, as the case may be. In order for the holder of a Note to receive payments in *reais* or the delivery of the Governmental Obligations, such Noteholder must deposit (in the case of Bearer Notes) such Note (together with all Coupons relating thereto) with any Paying Agent or (in the case of Registered Notes) the Definitive Registered Note representing such Note with any Transfer Agent, together with a duly completed transfer notice (a "Transfer Notice") in the form obtainable from any Paying Agent or any Transfer Agent, as the case may be, on or after the date of the Issuer's giving notice of certification of its decision to exercise its option to deliver Governmental Obligations or *reais*, as the case may be, in accordance with this Condition 15(b) and at least three São Paulo Business Days prior to the Maturity Date or earlier redemption date, as the case may be. No Note or Definitive Registered Note and Transfer Notice so deposited may be withdrawn. The provision of such information to the São Paulo Paying Agent less than three São Paulo Business Days prior to the Maturity Date or earlier redemption date, as the case may be, may result in such payment or delivery being made after the due date and the Noteholder shall not be entitled to any interest in respect of such delayed payment.

(iv) If by reason of the imposition of a Sovereign Event (and notwithstanding the Issuer having elected to deliver Governmental Obligations as provided herein) the Issuer is prevented legally or de facto from delivering to the holders the Governmental Obligations to be delivered, or intended to be delivered, in respect of the Notes, then the obligation of the Issuer to make such delivery shall be suspended until the Issuer is no longer prevented from making such delivery. The holders will not be entitled to receive payment of interest or any other amount in respect of any such suspension or in respect of any delay in receiving the Governmental Obligations deliverable in respect of the Notes (other than any interest that may have accrued and been paid with respect to such Governmental Obligations during or with respect to the period of such suspension) or take any other action.

(v) If Foreign Currency Constraint provisions are also specified in the relevant Final Terms, then the provisions of Condition 15(a) shall continue to apply to amounts payable (if any) in respect of the Notes in the Specified Currency.

(vi) In the event the Notes are not redeemed, the Issuer shall, as soon as practicable, notify the European Issuing and Paying Agent, the Principal Paying Agent, the Trustee and the holders of any termination of a Sovereign Event.

(vii) Upon the occurrence of a Sovereign Event and the delivery by the Issuer of Governmental Obligations or *reais* in accordance with this Condition 15(b), the Issuer shall not be required to gross up for any Taxes payable by the Issuer in respect of the transfer, holding, sale or redemption of the relevant Governmental Obligations.

(c) *Credit Event*: If Credit Event Provisions are specified in the relevant Final Terms, then notwithstanding any provisions to the contrary contained herein, the following provisions will apply to the Notes:

(i) In the event that, on or prior to any Interest Payment Date, the Maturity Date, or earlier redemption date, as the case may be, of any Note, (x) a court of competent jurisdiction shall appoint a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of any Reference Obligor for any material part of the property or assets of such Reference Obligor, or shall order the winding-up or liquidation of the affairs of any Reference Obligor, or a resolution is passed for the winding-up or dissolution of any Reference Obligor; (y) any Reference Obligor shall commence a voluntary case under any applicable bankruptcy, reorganization, insolvency or other similar law now or hereafter in effect (otherwise than for the purposes of a reconstruction or amalgamation while the relevant Reference Obligor is solvent if such reconstruction or amalgamation is undertaken for purposes unrelated to seeking relief from creditors, the composition or readjustment of debts, and assignments for the benefit of creditors), or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the relevant Reference Obligor or for any material part of the property of the relevant Reference Obligor (taken as a whole with its Subsidiaries), or make any general assignment for the benefit of the creditors of a Reference Obligor; or (z) any Reference Obligor takes any action (any such occurrence in clauses (x), (y) or (z) being a "Credit Action") which legally or de facto results in the non-payment of any of the Credit Obligations when originally due (any such occurrence being a "Credit Event"), then the Issuer shall give to the Trustee and the European Issuing and Paying Agent within five São Paulo Business Days of the occurrence of a Credit Event, a certificate signed by two authorized signatories of the Issuer certifying the existence of the Credit Event and which may, if the Issuer so specifies in such certificate, constitute irrevocable notice of the Issuer's intention to exercise its option to redeem all of the Series of the Notes subject to the Credit Event provisions. The Issuer shall, as soon as practicable thereafter, give notice of such certification and its contents in accordance with Condition 18. All Notes in respect of which the Issuer exercises its option to redeem shall be redeemed in accordance with sub-paragraph (ii)(A) below on the date specified in such notice which shall be not less than 14 days nor more than 45 days from the date such notice is given.

(ii) If a Credit Action occurs on or prior to any Interest Payment Date, Maturity Date, or earlier redemption date, as the case may be:

(A) the obligation of the Issuer to pay interest under Condition 5 falling due on such Interest Payment Date, Maturity Date, or earlier redemption date, as the case may be, including interest that is accrued prior to the Credit Action, is terminated; and

(B) the Issuer may, at its option, deliver to or to the order of the holders (to the extent and in the manner permitted by applicable law) on the Maturity Date or earlier redemption date, as the case may be, at the São Paulo Paying Agent (or such other bank in São Paulo, Brazil as the Issuer shall determine or such other paying agent appointed for such purpose and specified in the applicable Final Terms) and notified to the holders, (x) the Credit Obligations specified in the applicable Final Terms or, if no Credit Obligations are so specified, an amount of Credit Obligations selected by the Issuer in its sole discretion due and payable as of or prior to the Maturity Date pursuant to terms and conditions in existence prior to the Credit Event, in a face amount equivalent to the outstanding nominal amount or an amount calculated in accordance with Condition 6(d), as the case may be, due in respect of the Notes (provided, however, that if the Credit Obligations are denominated in a currency different than the Specified Currency, then for the purpose of determining the face amount equivalent to the outstanding nominal amount, such amount will be determined as follows: (i) if the Credit Obligations are denominated in reais, the outstanding nominal amount shall be converted to reais at the foreign exchange commercial rate based on the sale rate for converting reais into the Specified Currency shown on the Central Bank of Brazil computer information system under the title "SISBACEN PTAX-800, Option 5" on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be (or, if no such rate is available, the rate determined by the Issuer in its sole discretion on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be), and (ii) if the Credit Obligations are denominated in a currency other than reais, the outstanding nominal amount shall be converted to such currency at the foreign exchange commercial rate specified in the applicable Final Terms); or (y) the Reais Amount (as defined below); whereupon the Issuer's obligations under the Note shall be deemed fully satisfied and discharged.

The Issuer shall notify the European Issuing and Paying Agent, the Principal Paying Agent, the Trustee and the holders of the Notes of its decision to exercise its option to deliver Credit Obligations or *reais*, as the case may be, in accordance with this Condition 15(c). Failure by the Issuer to deliver any such certificate or notice will not prejudice the rights and obligations of the Issuer or the holders hereunder.

In this Condition 15(c), unless the context otherwise inquires, the following defined terms shall have the meanings set out below:

"Credit Obligations" means, in respect of a Note, the credit obligations specified in the applicable Final Terms or, if no Credit Obligations are so specified, any one or more of the credit obligations of the Reference Obligor specified in the applicable Final Terms as selected by the Issuer in its sole discretion, in each case as such obligation may be replaced by other obligations of the Reference Obligor as determined by the Issuer in its sole discretion.

"*Reais* Amount" means the market value on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be, of the Credit Obligations specified in the applicable Final Terms or, if no Credit Obligations are so specified, such Credit Obligations selected by the Issuer in its sole discretion which are due and payable as of or prior to the Maturity Date, pursuant to terms and conditions in existence prior to the Credit Event, in a face amount equivalent to the outstanding nominal amount or an amount calculated in accordance with Condition 6(d), as the case may be, due in respect of the Notes converted to *reais* at the foreign exchange commercial rate based on the sale rate for converting *reais* into the Specified Currency shown on the Central Bank of Brazil computer information system under the title "SISBACEN PTAX-800, Option 5" on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be (or, if no such rate is available, the rate determined by the Issuer, in its sole discretion, on the São Paulo Business Day prior to the Maturity Date, or earlier redemption date, as the case may be). The market value of the relevant Credit Obligations shall be determined by the Issuer, in its sole discretion, having regard to such factors as may be determined by the Issuer, in its sole discretion, including, but not limited to, market valuation and settlement conventions and conditions prevailing at the time of its determination, and shall be net of applicable commissions and taxes.

"Reference Obligor" means, in respect of a Note, the reference obligor specified in the applicable Final Terms.

(iii) Each holder will be required to make such arrangements as it deems appropriate, at its own cost and risk, in order to receive payments in reais or the delivery of the Credit Obligations, as the case may be. In order for the holder of a Note to receive payments in reais or the delivery of the Credit Obligations, such Noteholder must deposit (in the case of Bearer Notes) such Note (together with all Coupons relating thereto) with any Paying Agent or (in the case of Registered Notes) the Definitive Registered Note representing such Note with any Transfer Agent, together with a duly completed transfer notice (a "Transfer Notice") in the form obtainable from any Paying Agent or any Transfer Agent, as the case may be, on or after the date of the Issuer's giving notice of certification of its decision to exercise its option to deliver Credit Obligations or reais, as the case may be, in accordance with this Condition 15(c) and at least three São Paulo Business Days prior to the Maturity Date or earlier redemption date, as the case may be. No Note or Definitive Registered Note and Transfer Notice so deposited may be withdrawn. The provision of such information to the São Paulo Paying Agent less than three São Paulo Business Days prior to the Maturity Date or earlier redemption date, as the case may be, may result in such payment or delivery being made after the due date and the Noteholder shall not be entitled to any interest in respect of such delayed payment.

(iv) If by reason of the imposition of a Credit Event (and notwithstanding the Issuer having elected to deliver Credit Obligations as provided herein) the Issuer is prevented legally or de facto from delivering to the holders the Credit Obligations to be delivered, or intended to be delivered, in respect of the Notes, then the obligation of the Issuer to make such delivery shall be suspended until the Issuer is no longer prevented from making such delivery. The holders will not be entitled to receive payment of interest or any other amount in respect of any such suspension or in respect of any delay in receiving the Credit Obligations deliverable in respect of the Notes (other than any interest that may have accrued and been paid with respect to such Credit Obligations during or with respect to the period of such suspension) or take any other action.

(v) If Foreign Currency Constraint provisions are also specified in the relevant Final Terms, then the provisions of Condition 15(a) shall continue to apply to amounts payable (if any) in respect of the Notes in the Specified Currency.

(vi) In the event the Notes are not redeemed, the Issuer shall, as soon as practicable, notify the European Issuing and Paying Agent, the Principal Paying Agent, the Trustee and the holders of any termination of a Credit Event.

(vii) Upon the occurrence of a Credit Event and the delivery by the Issuer of Credit Obligations or *reais* in accordance with this Condition 15(c), the Issuer shall not be required to gross up for any Taxes payable by the Issuer in respect of the transfer, holding, sale or redemption of the relevant Credit Obligations.

16. 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 16 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.

17. 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 holders.

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 admitted to listing on Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that exchange so require), either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a daily newspaper with general circulation in Luxembourg (which is expected to be *Luxemburger Wort*). 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 admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that exchange so require) either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a daily newspaper with general circulation in Luxembourg 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. So long as any Notes are represented by a Global Note and such Global Note is held on behalf of one or more clearing systems, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange or in a leading newspaper having general circulation in Luxembourg or London.

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 and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(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 (including a dispute relating to any non-contractual obligations 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.

BOOK-ENTRY; DELIVERY AND FORM

General

Unless otherwise specified in the applicable Final Terms, the Notes shall be represented initially by one or more Notes in global form (collectively, the "Global Notes").

Registered Notes shall be represented initially by one or more Global Notes in registered form, without Coupons, which shall be either DTC Global Notes (as defined below) or an International Global Note Certificate (as defined below), as specified in the applicable Final Terms. In the case of Notes represented by one or more DTC Global Notes, the DTC Unrestricted Global Note (as defined below) and the DTC Restricted Global Note (as defined below) will be registered in the name of DTC, as depositary, or a successor or nominee thereof, and deposited on behalf of the purchasers thereof with a custodian for DTC. Beneficial interests in the DTC Restricted Global Note and DTC Unrestricted Global Note shall be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Purchasers of Notes may elect to hold interests in the DTC Restricted Global Note and the DTC Unrestricted Global Note through any of DTC (in the United States), Clearstream, Luxembourg, or Euroclear if they are participants in such systems or indirectly through organizations which are participants in such systems. In the case of Notes represented by an International Global Note Certificate, such International Global Note Certificate will be deposited with a Common Depositary for and registered in the name of a common nominee of Euroclear and Clearstream, Luxembourg for credit to the respective accounts of beneficial owners of the Notes represented thereby.

Bearer Notes shall be represented initially by a temporary Global Note in bearer form, without Coupons (a "Temporary Global Note"), which shall be deposited with a Common Depositary for Clearstream, Luxembourg, and Euroclear, unless otherwise specified in the applicable Final Terms. Beneficial interests in such Temporary Global Note shall be exchangeable for beneficial interests in a Permanent Global Note, in an equal aggregate nominal amount, not earlier than 40 days after the applicable closing date upon certification of non-U.S. ownership, as set forth in the Trust Deed, to the effect that the holder is (i) not a U.S. person, (ii) (A) a non-U.S. branch of a U.S. financial institution (as defined in U.S. Treasury regulations Section 1.165-12(c)(1)(iv)) purchasing for its own account or for resale or (B) a U.S. person who acquired Notes through a non-U.S. branch of a U.S. financial institution and who holds the Notes through such financial institution on the date of such certification (and, in each case (A) or (B), that the financial institution agrees to comply with the requirements of section 165(j)(3)(A), (B) or (C) of the U.S. Internal Revenue Code and the U.S. Treasury regulations thereunder) or (iii) a financial institution that acquired Notes for purposes of resale during the restricted period (as defined in U.S. Treasury regulations Section 1.163-5(c)(2)(i)(D)(7)), and such financial institution certifies that it has not acquired the Notes for purposes of resale directly or indirectly within the United States or its possessions or to a U.S. person. A financial institution, whether or not described in (i) or (ii) above, that purchases Notes for purposes of resale during the restricted period may only give the certification described in (iii) above.

Except in the limited circumstances described below or as otherwise set forth in the applicable Final Terms, owners of beneficial interests in the Global Notes shall not be entitled to receive Notes in definitive form. See "—Registered Global Notes—Book-Entry System."

In the United States securities market, unless otherwise agreed between the Issuer and the relevant dealer or dealers, settlement of all trades of Notes will occur on the basis of the trade date plus three days ("T+3").

Registered Notes may be issued in the form of one or more Global Notes in an aggregate nominal amount equal to the nominal amount of the Notes of such Series, which shall be exchangeable in the limited circumstances described below for Notes in the form of Definitive Registered Notes ("Definitive Registered Notes"). See"—Registered Global Notes—Book-Entry System."

Bearer Notes will initially be issued in the form of a Temporary Global Note, without Coupons, in an initial aggregate nominal amount equal to the principal amount of the Notes of such Series not initially sold to U.S. persons, which shall be exchangeable as described below.

Registered Global Notes

DTC Global Notes

Notes that are sold in reliance on Rule 144A will be represented by a DTC Restricted Global Note (a "DTC Restricted Global Note"), unless otherwise specified in the applicable Final Terms. A DTC Restricted Global Note (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement and will bear the legend regarding such restrictions described under "Transfer Restrictions."

Registered Notes that are sold outside the United States in reliance on Regulation S will be represented by a DTC Unrestricted Global Note (a "DTC Unrestricted Global Note"), unless otherwise specified in the applicable Final Terms. On or prior to the 40th day after the later of the commencement of the offering and the date of delivery of the Notes represented by a DTC Unrestricted Global Note, a beneficial interest therein may be transferred to a person who takes delivery in the form of an interest in a DTC Restricted Global Note of the same Series, but only upon receipt by the Registrar of a written certification from the transferor (in the form provided in the Agency Agreement) to the effect that such transfer is being made to a person who the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and each such account is a QIB within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any State of the United States or any other jurisdiction. After such 40th day, such certification requirement will no longer apply to such transfers. Beneficial interests in a DTC Restricted Global Note may be transferred to a person who takes delivery in the form(s) of an interest in a DTC Unrestricted Global Note of the same Series, whether before, on or after such 40th day, but only upon receipt by the Registrar of a written certification from the transferor (in the form provided in the Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 and that, if such transfer occurs on or prior to such 40th day, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg. Any beneficial interest in a DTC Global Note that is transferred to a person who takes delivery in the form of an interest in another DTC Global Note of the same Series will, upon transfer, cease to be an interest in the former DTC Global Note, will become an interest in the latter DTC Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the latter DTC Global Note for as long as it remains such an interest.

Book-Entry System

Upon the issuance of a DTC Global Note, DTC or its custodian will credit, on its internal system, the respective nominal amount of the individual beneficial interests represented by such DTC Global Note to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in a DTC Global Note will be limited to persons who have accounts with DTC (including Euroclear and Clearstream, Luxembourg, in the case of a DTC Unrestricted Global Note), or persons who hold interests through participants. Ownership of beneficial interests in the DTC Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants), which may include Euroclear and Clearstream, Luxembourg, in the case of a DTC Unrestricted Global Note, as described below.

So long as DTC or its nominee is the registered holder of a DTC Global Note, DTC or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such DTC Global Note for all purposes under the Trust Deed, the Agency Agreement and the Notes. Unless DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Note, or ceases to be a "Clearing Agency" registered under the Exchange Act, or an Event of Default has occurred and is continuing with respect to such Note, owners of beneficial interests in such DTC Global Note will not be entitled to have any portions of such DTC Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders of such DTC Global Note (or any Notes represented thereby) under the Trust Deed, the Agency Agreement or the Notes. If DTC is at any time unwilling or unable to continue as a depositary and a successor depositary is not appointed by the

Issuer within 90 days, the Issuer will (i) issue Restricted Definitive Registered Notes in exchange for the relevant DTC Restricted Global Note and/or (ii) issue an International Global Note Certificate in exchange for the relevant DTC Unrestricted Global Note. In the case of Restricted Definitive Registered Notes issued in exchange for a DTC Restricted Global Note, such Restricted Definitive Registered Notes will bear, and be subject to, the legend described under "Transfer Restrictions." Except in the limited circumstances described in this paragraph, owners of beneficial interests in a DTC Global Note will not be entitled to receive physical delivery of Definitive Registered Notes. In addition, no beneficial owner of an interest in a DTC Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Agency Agreement and, if applicable, those of Euroclear and Clearstream, Luxembourg).

Investors may hold their interests in a DTC Unrestricted Global Note through Euroclear or Clearstream, Luxembourg, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Beginning 40 days after the later of the commencement of the offering and the date of delivery of the Notes represented by such DTC Unrestricted Global Note (but not earlier), investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in the DTC system. Euroclear and Clearstream, Luxembourg will hold interests in a DTC Unrestricted Global Note on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in customers' securities accounts in the depositaries' names on the books of DTC. Unless otherwise indicated in the applicable Final Terms, Citibank, N.A. will initially act as depositary for Clearstream, Luxembourg, and JPMorgan Chase Bank will initially act as depositary for Euroclear.

Investors may hold their interests in a DTC Restricted Global Note directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

Payments of the principal of and any premium, interest, and other amounts on any DTC Global Note will be made to DTC or its nominee as the registered owner thereof. Neither the Issuer, the Trustee, the Registrar, the Transfer Agent nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a DTC Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC or its nominee, upon receipt of any payment in respect of a DTC Global Note held by it or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such DTC Global Note as shown on the records of DTC or its nominee. The Issuer also expects that payments by participants to owners of beneficial interests in a DTC Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in accordance with DTC's procedures and will be settled in same day funds. The laws of some States of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a 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 and certain banks, the ability of a person having a beneficial interest in a DTC Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in any DTC Global Note in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear participants and Clearstream, Luxembourg participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream, Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg participant purchasing an interest in a DTC Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, Luxembourg, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a DTC Global Note settled during such processing day will be reported to the relevant Euroclear or Clearstream, Luxembourg participant on such day. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a DTC Global Note by or through a Euroclear or Clearstream, Luxembourg participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in DTC.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of a DTC Global Note (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in such DTC Global Note are credited and only in respect of such portion of the aggregate principal amount of such DTC Global Note as to which such participant or participants has or have given such direction. However, if there is an Event of Default under a DTC Global Note, DTC will exchange such DTC Global Note for legended Notes in definitive form, which it will distribute to its participants.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC, Clearstream, Luxembourg, and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the DTC Global Notes among participants of DTC, Clearstream, Luxembourg, and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Trustee will have any responsibility for the performance by DTC, Clearstream, Luxembourg, or Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If any Series of Notes represented by one or more DTC Global Notes contains a foreign currency constraint provision, as more fully set out in the Terms and Conditions of the Notes and in the applicable Final Terms, upon the occurrence of a Foreign Currency Constraint Event (as defined in the Terms and Conditions of the Notes), notice of such event shall be given to the Noteholders by the Registrar through DTC. Exchanges of interests in the DTC Global Note(s) representing the original Notes for interests in the DTC Global Note(s) representing the Exchanged Notes (as defined in the Terms and Conditions of the Notes) will be made in accordance with the Terms and Conditions of the Notes. The Registrar will prepare one or more DTC Global Notes which will represent the Exchanged Notes and will obtain a new CUSIP and/or CINS number for the Exchanged Notes. The DTC Global Note(s) representing the original Notes and the DTC Global Note(s) representing the Exchanged Notes will be marked down and up, respectively, upon exchange in accordance with the Terms and Conditions of the Notes. Interests in the DTC Global Notes representing the Exchanged Notes will be held in the account of the DTC Participant for the São Paulo Paying Agent on behalf of the Noteholders. Payments in respect of the Exchanged Notes will be made by the São Paulo Paying Agent outside DTC in accordance with the Terms and Conditions of the Notes. Holders of Exchanged Notes may not transfer their interest in such Exchanged Notes except in connection with the termination of the foreign Currency Constraint Event.

On termination of the Foreign Currency Constraint Event, interests in the DTC Global Note(s) representing the Exchanged Notes will be exchanged for interests in the DTC Global Note(s) representing the original Notes and such interests in the DTC Global Note(s) representing the original Notes will be transferred back to the original accounts in DTC from which they were originally transferred, all in accordance with the Terms and Conditions of the Notes. The DTC Global Note(s) representing the Exchanged Notes will be marked down to zero and the DTC Global Note(s) representing the original Notes will be marked back up to the original aggregate nominal amount of the Series.

International Global Note Certificates

If so specified in an applicable Final Terms, registered Notes sold outside the United States in reliance on Regulation S, which are not part of a Series which is also offered in the United States, may be represented, in whole or in part, by an International Global Note Certificate which will be deposited with a Common Depositary for and registered in the name of a common nominee of Euroclear and Clearstream, Luxembourg for credit to the respective accounts of beneficial owners of the Notes represented thereby.

Investors may hold their interests in an International Global Note Certificate through Euroclear or Clearstream, Luxembourg if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream, Luxembourg will hold interests in an International Global Note Certificate on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries.

So long as a common nominee of Euroclear and Clearstream, Luxembourg, is the registered holder of an International Global Note Certificate, such common nominee will be considered the sole owner and holder of the Notes represented by such International Global Note Certificate for all purposes under the Notes and all other relevant documents. Owners of beneficial interests in an International Global Note Certificate will not be entitled to have any portion of such International Global Note Certificate registered in their names, will not receive or be entitled to receive delivery of Definitive Registered Notes in exchange for their interests in an International Global Note Certificate and will not be considered the owners or holders of such International Global Note Certificate (or any Notes represented thereby) under the Trust Deed, the Agency Agreement or the Notes. In addition, no beneficial owner of an interest in an International Global Note Certificate or any other relevant documents will be able to transfer that interest except in accordance with applicable procedures of Euroclear and Clearstream, Luxembourg (in addition to those under the Agency Agreement referred to herein).

Payments of the principal of and any premium, interest and other amounts on any International Global Note Certificate will be made to the common nominee as the registered owner thereof. Neither the Issuer, the Trustee, the Registrar, the Transfer Agent nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in an International Global Note Certificate or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that each of Euroclear and Clearstream, Luxembourg, upon receipt of any such payment in respect of an International Global Note Certificate held by a common nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of such International Global Note Certificate as shown on the records of Euroclear or Clearstream, Luxembourg, as the case may be. The Issuer also expects that payments by participants to owners of beneficial interests in an International Global Note Certificate held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

All Notes represented by an International Global Note Certificate will be offered and sold pursuant to Regulation S, and the restrictions on and procedures for transfer of beneficial interests in such International Global Note Certificate and any DTC Restricted Global Note of the same Series will be the procedures applicable to DTC Unrestricted Global Notes and DTC Restricted Global Notes described above under "—Registered Global Notes—DTC Global Notes", with such modifications as may be specified in such Notes and the applicable Final Terms.

Bearer Notes

Bearer Notes shall initially be issued in the form of a Temporary Global Note, without Coupons, in an initial aggregate nominal amount equal to the nominal amount of the Notes of such Series not initially sold to U.S. persons, which shall be exchangeable, unless otherwise specified in the Final Terms, (i) for a Permanent Global Note, without Coupons attached (together with Temporary Global Notes, "Global Bearer Notes"), which shall in turn be exchangeable (in whole, but not in part) in limited circumstances in the form of Definitive Bearer Notes, with or without Coupons attached, or (ii) in whole but not in part, directly for Definitive Bearer Notes, with or without Coupons attached. Purchasers in the United States (including its territories, its possessions and other areas subject to its jurisdiction) will not be able to receive Bearer Notes.

The European Issuing and Paying Agent shall deliver each Temporary Global Note executed and authenticated as provided in the Trust Deed to the Common Depositary for the benefit of Euroclear and Clearstream, Luxembourg, for credit against payment in immediately available funds on the date of settlement to the respective accounts of the holders of the Notes of the Series represented by such Temporary Global Note.

Each Temporary Global Note and each Permanent 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. A summary of certain of those provisions is set out below.

So long as the Common Depositary, or its nominee, is the bearer of a Global Bearer Note, the Common Depositary or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such Global Bearer Note for all purposes under the Trust Deed, the Agency Agreement and such Notes. Owners of beneficial interests in a Global Bearer Note will not be considered the owners or holders of such Global Bearer Note (or any Notes represented thereby) under the Trust Deed, the Agency Agreement or the Notes. In addition, no beneficial owner of an interest in a Global Bearer Note will be able to transfer that interest except in accordance with applicable procedures of Euroclear and Clearstream, Luxembourg (in addition to those under the Agency Agreement referred to herein).

In considering the interests of Noteholders while the Permanent 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 Permanent Global Note and may consider such interests as if such accountholders were the holder of the Permanent Global Note.

Payments of the principal of and any premium, interest and other amounts on any Global Bearer Note will be made to the Common Depositary for Euroclear and Clearstream, Luxembourg or its nominees as the bearer thereof. Neither the Issuer, the Trustee nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Bearer Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that each of Euroclear and Clearstream, Luxembourg, upon receipt of any such payment in respect of a Global Bearer Note held by a Common Depositary or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Bearer Note as shown on the records of Euroclear or Clearstream, Luxembourg, as the case may be. The Issuer also expects that payments by participants to owners of beneficial interests in a Global Bearer Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

So long as the Bearer Notes are represented by the Permanent Global Note and the Permanent 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).

On or after the date (the "Exchange Date") which is the earlier of (i) the first Business Day following the expiration of a period of 40 days after (and including) the date on which the Notes of such Series were issued and (ii) the first day on which interest, if any, is paid on the Notes of such Series, beneficial interests in the Temporary Global Note of a Series as to which the European Issuing and Paying Agent has received certification as to the non-U.S. beneficial ownership thereof as required by U.S. Treasury regulations (see "—General") and as set forth in the Trust Deed will, upon presentation thereof by the Common Depositary to the European Issuing and Paying Agent, be exchanged (i) for interests in a Permanent Global Note of such Series or (ii) in whole but not in part, directly for one or more Definitive Bearer Notes of the same Series, in each case pursuant to the procedures set forth in the next sentence, with respect to that portion of such Temporary Global Note; provided, however, that, if Definitive Bearer Notes and (if applicable) Coupons have already been issued in exchange for a portion of such Temporary Global Note or for all of the Notes represented for the time being by such Permanent Global Note because Euroclear and/or Clearstream, Luxembourg do not regard the Permanent Global Note to be fungible with such Definitive Bearer Notes, then such Temporary Global Note may only thereafter be exchanged for Definitive Bearer Notes and (if applicable) Coupons pursuant to the terms of the Trust Deed, the Agency Agreement and such Notes. At any time after the Exchange Date, upon 40 days' notice (which may be given at any time prior to, on or after the Exchange Date) to the European Issuing and Paying Agent by Euroclear or Clearstream, Luxembourg, as the case may be, acting at the request of or on behalf of the beneficial owner or owners of a Global Bearer Note, and, in the case of a Temporary Global Note, upon receipt of the certifications required by U.S. Treasury regulations referred to above, and, unless otherwise agreed, upon payment by the Holder of reasonable costs (and the provision to Euroclear and Clearstream of the full contact details and the agreement to bear the printing costs by holders who instruct Euroclear and Clearstream to receive definitive notes; the Issuer will collect the related payments outside the clearing systems), interests in the Temporary Global Note or Permanent Global Note of a Series may be exchanged, in whole but not in part, for Definitive Bearer Notes of such Series with Coupons, if applicable, attached; provided, however, that, if Definitive Bearer Notes and (if applicable) Coupons have already been issued in exchange for a portion of such Temporary Global Note or for all of the Notes represented for the time being by such Permanent Global Note because Euroclear and/or Clearstream, Luxembourg do not regard the Permanent Global Note to be fungible with such Definitive Bearer Notes, then such Temporary Global Note may only thereafter be exchanged for Definitive Bearer Notes and (if applicable) Coupons pursuant to the terms of the Trust Deed, the Agency Agreement and such Notes. Any Definitive Bearer Note delivered in exchange for a beneficial interest in a Temporary Global Note or Permanent Global Note shall bear substantially the same legends as are set forth on the face of the Temporary or Permanent Global Note for which it was exchanged. No Bearer Note may be delivered nor may any interest be paid on any Bearer Note until the person entitled to receive such Bearer Note or such interest furnishes the certifications required by U.S. Treasury regulations referred to above.

Until exchanged in full, Global Bearer Notes of a Series shall in all respects be entitled to the same benefits under the Trust Deed and the Agency Agreement as Definitive Bearer Notes of such Series authenticated and delivered thereunder, except that principal of and any premium, interest, additional amounts and other amounts on a Temporary Global Note will not be payable unless a certification, as described herein, is given by the person(s) appearing in the records of Euroclear or Clearstream, Luxembourg as the owner of the Temporary Global Note or portions thereof being presented for payment, and unless a corresponding certification by Euroclear or Clearstream, Luxembourg shall have been delivered prior to each such date on which such amounts are to be paid.

Claims against the Issuer in respect of principal and interest in respect of the Permanent Global Note will become prescribed unless the Permanent 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).

The holder of the Permanent Global Note will (unless the Permanent 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 Permanent Global Note may be exchanged.

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 Permanent Global Note, and evidenced by the appropriate notation in the relevant schedule to such Permanent Global Note.

The Permanent Global Note provides that the holder may cause the Permanent Global Note to become due and payable in the circumstances described in Condition 9 by giving notice thereof to the Trustee.

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) except that the notice shall not be required to contain the certificate numbers of Notes drawn for redemption in the case of a partial redemption of Notes and accordingly no drawing of Notes for redemption shall be required.

The Noteholders' put option in Condition 6(f) may be exercised by the holder of the Permanent Global Note giving notice to the European Issuing and Paying Agent of the nominal amount of Bearer Notes in respect of which the option is exercised and presenting the Permanent Global Note for endorsement of exercise within the time limits specified in Condition 6(f).

Each Permanent Global Note provides that, if the Currency Constraint provisions are specified in the Final Terms as being applicable, paragraphs (a) and (b) of Condition 15 of the Notes represented by such Permanent Global Note shall be replaced EITHER with the provisions set out in paragraph (1) below (if the Permanent Global Note is specified on the face of such Permanent Global Note as representing the original Currency Constraint Notes) OR with the provisions set out in paragraph (2) below (if the Permanent Global Note is specified on the face of such Permanent Global Note as representing the Exchanged Notes in respect of which the Currency Constraint Notes may be exchanged):

(1) If a Foreign Currency Constraint Event shall have occurred, the Issuer shall give to the Trustee and the European Issuing and Paying Agent within two São Paulo Business Days (as defined below) after such event, a certificate signed by two authorized signatories certifying the existence of the Foreign Currency Constraint Event. The Issuer shall, as soon as practicable thereafter, give notice of such certification and its contents, in accordance with Condition 18 and shall immediately appoint a Paying Agent with a specified office in São Paulo, Brazil (the "São Paulo Paying Agent"). In this event any Noteholder may, for a period of 30 days after the date of publication of such notice (the "Election Period"), elect to exchange its interests in the Permanent Global Note representing the original Notes for equivalent interests in the Permanent Global Note representing the Exchanged Notes (such exchange, the "Currency Constraint Exchange") and transfer such interests through Clearstream, Luxembourg, Euroclear and/or any Alternative Clearing System to or to the order of the São Paulo Paying Agent. The São Paulo Paying Agent shall hold such transferred interests for the account of the transferring Noteholder only, and such Noteholder may not transfer or otherwise dispose of such transferred interests and the São Paulo Paying Agent will treat such Noteholder as the owner of the Exchanged Notes and related Coupons and Talons (if any) throughout the period of existence of the Foreign Currency Constraint Event. In order for such an election to be effective, the Trustee, the São Paulo Paying Agent, the European Issuing and Paying Agent and the Issuer must receive a notice of election substantially in the form contained in the Agency Agreement appropriately completed by such Noteholder within the time limits described above. All duly completed and valid notices of election received within the Election Period shall, on receipt, be deemed to have been received on the first day of the Election Period.

"Exchanged Notes" means Notes with terms and conditions identical to the terms and conditions of the Notes represented by the Permanent Global Note representing the original Notes save that:

(i) all payments due in respect of such Exchanged Notes and related Coupons shall be made by the Issuer, to the extent permitted by Brazilian law, in the lawful currency of Brazil when due (the "Due Date") or, where the Due Date occurs before the date of the Currency Constraint Exchange (the "Currency Constraint Exchange Date"), as soon as practicable after the Currency Constraint Exchange Date and without any additional amount in compensation for late payment; and

(ii) the amount of any payment due in respect of such Exchanged Notes and related Coupons shall be that amount in the lawful currency of Brazil, as determined by the São Paulo Paying Agent, having regard to this paragraph (ii), which would be required to purchase the amount of such payment in the Specified Currency at the rate of exchange shown on the Central Bank computer information system, under the title "SISBACEN PTAX-800, Option 5" on the São Paulo Business Day prior to the Due Date (or, where the Due Date precedes the Currency Constraint Exchange Date, on the São Paulo Business Day prior to the date of payment), provided that if no such rate of exchange is available, the applicable rate of exchange shall be an average of the Brazilian currency exchange rates on such São Paulo Business Day for the purchase of the Specified Currency notified to the São Paulo Paying Agent by four leading Brazilian Banks selected by the São Paulo Paying Agent in its discretion.

"Foreign Currency Constraint Event" means any law, regulation, directive or communication imposed or issued by the Brazilian government or the Central Bank of Brazil or any other competent authority in Brazil imposing foreign exchange controls or other restrictions or any refusal to act or delay in acting by any such party, which has the effect of prohibiting, preventing or delaying the remittance of the Specified Currency (whether in respect of principal, interest, additional amounts payable pursuant to the Conditions or otherwise) to or by the Principal Paying Agent in respect of the Notes represented by the Permanent Global Note representing the original Notes when due.

"São Paulo Business Day" means a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets are open for business in São Paulo, Brazil.

Each election which has become effective (as set forth above) shall be irrevocable. No transfers of Exchanged Notes may be made other than as provided below after the termination of the Foreign Currency Constraint Event. However, Clearstream, Luxembourg, Euroclear and/or any Alternative Clearing System will not monitor any transfers of Exchanged Notes or block any transfer thereof. In addition, Noteholders, by electing to receive the lawful currency of Brazil, waive their right to receive payments in respect of the Exchanged Notes and related Coupons through Clearstream, Luxembourg, Euroclear and/or any Alternative Clearing System since these payments will be made in Brazil by the São Paulo Paying Agent.

On termination of the Foreign Currency Constraint Event, Exchanged Notes and related unmatured Coupons and unexchanged Talons shall be exchanged for an equivalent amount of the Notes represented by the Permanent Global Note representing the original Notes, provided that, prior to such exchange, all payments due under the Conditions of the Notes represented by the Permanent Global Note representing the original Notes and the conditions of the Exchanged Notes and related Coupons shall have been made by the Issuer. Such exchange will occur as a result of the São Paulo Paying Agent exchanging interests in the Permanent Global Note representing the Exchanged Notes for interests in the Permanent Global Note representing the original Notes and transferring those interests back to the account of the Noteholder(s) which had originally elected to make the Currency Constraint Exchange.

(2) Upon a Foreign Currency Constraint occurring, the Issuer shall immediately appoint a Paying Agent with a specified office in São Paulo, Brazil (the "São Paulo Paying Agent"), who will hold the Notes represented by the Permanent Global Note representing the Exchanged Notes for the account of the Noteholders only and will treat the Noteholders as the owners of the Notes represented by the Permanent Global Note representing the Exchanged Notes throughout the period of the existence of the Foreign Currency Constraint Event. No transfers of Notes represented by the Permanent Global Note representing the Exchanged Notes may be made other than as provided below after the termination of the Foreign Currency Constraint Event. However, Clearstream, Luxembourg, Euroclear and/or any Alternative Clearing System will not monitor any transfers of Notes represented by the Permanent Global Note representing the Exchanged Notes or block any transfer thereof. In addition, the Noteholders waive their right to receive payments in respect of the Notes represented by the Permanent Global Note representing the Exchanged Notes through Clearstream, Luxembourg, Euroclear and/or any Alternative Clearing System. All payments which become due during the period in which a Foreign Currency Constraint Event shall be in effect will be made, to the extent permitted by the laws and regulations of Brazil, in the lawful currency of Brazil by the Issuer when due (the "Due Date") (or, where the Due Date occurs before the date (the "Currency Constraint Exchange Date") on which interests in the Permanent Global Note representing the original Currency Constraint Notes were exchanged for equivalent interests in the Permanent Global Note representing the Exchanged Notes (such exchange, the "Currency Constraint Exchange"), as

soon as practicable following such Currency Constraint Exchange Date and without any additional amount in compensation for late payment), to an account in the lawful currency of Brazil maintained by or on behalf of the São Paulo Paying Agent with a bank in São Paulo, Brazil. The São Paulo Paying Agent will thereafter make payment to Noteholders by transfer to an account in the lawful currency of Brazil maintained by each such Noteholder with a bank in São Paulo, Brazil (as specified by each such Noteholder in the notice of election delivered by each such Noteholder to any Paying Agent prior to, and for the purpose of effecting, the Currency Constraint Exchange). The amount of any such payment shall be that amount in the lawful currency of Brazil, as determined by the São Paulo Paying Agent, having regard to the provisions of this paragraph, which would be required to purchase the amount of such payment in the Specified Currency at the rate of exchange shown on the Central Bank computer information system, under the title "SISBACEN PTAX-800, Option 5" on the São Paulo Business Day prior to the Due Date (or, where the Due Date precedes the Currency Constraint Exchange Date, on the São Paulo Business Day prior to the date of payment), provided that if no such rate of exchange is available, the applicable rate of exchange shall be an average of the Brazilian currency exchange rates on such São Paulo Business Day for the purchase of the Specified Currency notified to the São Paulo Paying Agent by four leading Brazilian Banks selected by the São Paulo Paying Agent in its discretion.

"Exchanged Notes" means Notes with terms and conditions identical to the terms and conditions of the Notes represented by the Permanent Global Note representing the original Notes for which such Notes may be exchanged save that payments shall be made in accordance with the provisions of this paragraph (2).

"Foreign Currency Constraint Event" means any law, regulation, directive or communication imposed or issued by the Brazilian government or the Central Bank of Brazil or any other competent authority in Brazil imposing foreign exchange controls or other restrictions or any refusal to act or delay in acting by any such party, which has the effect of prohibiting, preventing or delaying the remittance of the Specified Currency (whether in respect of principal, interest, additional amounts payable pursuant to the Conditions or otherwise) to or by the Principal Paying Agent in respect of the Notes represented by the Permanent Global Note representing the original Notes when due.

"São Paulo Business Day" means a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets are open for business in São Paulo, Brazil.

On termination of the Foreign Currency Constraint Event, the Exchanged Notes and related unmatured Coupons and unexchanged Talons shall be exchanged for an equivalent amount of the Notes represented by the Permanent Global Note representing the original Notes, provided that, prior to such exchange, all payments due under the conditions of the Notes represented by the Permanent Global Note representing the original Notes and the Conditions of the Exchanged Notes and related Coupons shall have been made by the Issuer. Such exchange will occur as a result of the São Paulo Paying Agent exchanging interests in the Permanent Global Note representing the Exchanged Notes for interests in the Permanent Global Note representing the original Notes and transferring those interests back to the account of the Noteholder(s) which had originally elected to make the Currency Constraint Exchange.

The following legend will appear on all Global Bearer Notes and Definitive Bearer Notes and any related Coupons:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in the above legend provide that a U.S. person, with certain exceptions, will not be permitted to deduct any loss, and will not be eligible for capital gains treatment with respect to any gain realized on any sale, exchange or redemption of Bearer Notes or any related Coupons.

Notwithstanding anything to the contrary herein, Bearer Notes with maturities of one year or less may be issued as specified in the applicable Final Terms.

SUBSCRIPTION AND SALE

The following is subject to change in the applicable Final Terms. In addition, the Dealers who have agreed to purchase Notes of a Series from the Issuer will be specified in the applicable Final Terms.

Notes may be sold from time to time by the Issuer to or through any one or more of the Dealers (the "Dealers") or to any other person or institution. The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to the Dealers as principal or through the Dealers, as agents, are set out in the Amended and Restated Dealer Agreement dated March 26, 2010 among the issuer and the Dealers (The "Dealer Agreement"). Any such agreement will, among other things, make provision for the form and Terms and Conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for resignation of existing Dealers and the appointment of additional Dealers.

Each of Santander Investment Limited, Santander Investment Securities Inc. and Santander Brasil are our affiliates.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. 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 U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and U.S. Treasury regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it has offered and sold Notes and will offer and sell Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of a Tranche of Notes of which such Notes are a part (the "Distribution Compliance Period"), as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers with respect to Notes of a Tranche purchased by or through it, in which case the Principal Paying Agent shall notify such Dealer when all such Dealers have so certified), only in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act as set forth below. Accordingly, each Dealer has agreed that neither it, its affiliates nor any persons acting on its or their behalf (i) has engaged or will engage in any "directed selling efforts", as defined in Regulation S, in the United States with respect to Notes, (ii) has made offers or sales of any security, or solicited offers to buy, or otherwise negotiated in respect of any security, under circumstances that would require the registration of Notes under the Securities Act or (iii) has engaged in any form of general solicitation, and it and they have complied and will comply with the offering restrictions requirements or Regulation S. Each Dealer and its affiliates also agree that, at or prior to confirmation of sale of Notes (other than a sale pursuant to Rule 144A), it will have sent to each Dealer, distributor or person receiving a selling concession, fee or other remuneration 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 to substantially the following effect:

"The Notes covered hereby have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Notes of which such Notes are a part, as determined and certified by the relevant Dealer or Dealers, except in either case in accordance with Regulation S under, or pursuant to an available exemption from the registration requirements of, the Securities Act. Terms used above have the meaning given to them by Regulation S of the Securities Act."

Terms used in the above paragraph 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 QIBs in reliance on Rule 144A.

Each Dealer has agreed that it will not, acting either as principal or agent, offer or sell any Notes in the United States other than Notes in registered form bearing a restrictive legend thereon, and it will not, acting either as principal or agent, offer, sell, reoffer or resell any of such Notes (or approve the resale of any such Notes):

- except (A) inside the United States through a U.S. broker dealer that is registered under the United States Securities Exchange Act of 1934 (the "Exchange Act") to institutional investors, each of which such Dealer reasonably believes is a "qualified institutional buyer" (as defined in Rule 144A thereunder), or a fiduciary or agent purchasing Notes for the account of one or more qualified institutional buyers or (B) otherwise in accordance with the restrictions on transfer set forth in such Notes, the Dealer Agreement, the Information Memorandum and the relevant Final Terms; or

- by means of any form of general solicitation or general advertisement, including but not limited to (A) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast of television or radio and (B) any seminar or meeting whose attendees have been advised by any general solicitation or general advertising.

Prior to the sale of any Notes in registered form bearing a restrictive legend thereon, the selling Dealer shall have provided each offeree that is a U.S. person (as defined in Regulation S) with a copy of the Information Memorandum in the form the Issuer and Dealers shall have agreed most recently shall be used for offers and sales in the United States.

Each Dealer has represented and agreed that in connection with each sale to a qualified institutional buyer it has taken or will take reasonable steps to ensure that the purchaser is aware that the Notes have not been and will not be registered under the Securities Act and that transfers of Notes are restricted as set forth herein and, in the case of sales in reliance upon Rule 144A, that the selling Dealer may rely upon the exemption provided by Rule 144A under the Securities Act.

In addition, until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such Series of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

In addition:

(a) In respect of Notes that are expressed in the applicable Final Terms to be subject to the C Rules, the following applies:

Under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C)(the "C Rules"), the Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. In connection with the original issuance of Notes in bearer form, each Dealer has represented that it has not communicated and it will not communicate, directly or indirectly, with a prospective purchaser if either of them is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

(b) In respect of Notes that are expressed in the applicable Final Terms to be subject to the D Rules, the following applies:

(i) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "D Rules"), each Dealer (a) has represented that it has not offered or sold, and has agreed that during a 40-day restricted period it will not offer or sell, Notes to a person who is within the United States or its possessions or to a United States person, and (b) has represented that it has not delivered and agrees that it will not deliver within the United States or its possessions definitive Notes that are sold during the restricted period;

(ii) each Dealer has represented that it has and has agreed that 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 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 a Dealer is a United States person, such Dealer has represented that it is acquiring the Notes for purposes of resale in connection with their original issuance and if it retains Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6);

(iv) with respect to each affiliate that acquires from an affiliated Dealer Notes for the purpose of offering or selling such Notes during the restricted period, such Dealer either (a) has repeated and confirmed the representations and agreements contained in clauses (1), (2) and (3) on such affiliate's behalf or (b) has agreed that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in clauses (1), (2) and (3); and

(v) each Dealer has represented and agreed that it has not and will not enter into any written contract (other than a confirmation or other notice of the transaction) pursuant to which any other party to the contract (other than one of its affiliates or another Dealer) has offered or sold, or during the restricted period will offer or sell, any Notes, except where pursuant to the contract the Dealer has obtained or will obtain from that party, for the benefit of the Issuer and the several Dealers, the representations contained in, and the distributor's agreement to comply with, the provisions of clauses (i), (ii), (iii), (iv) and (v) of this paragraph.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the D Rules.

This information memorandum 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 and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the number of Notes which may be offered pursuant to Rule 144A. This information memorandum does not constitute an offer to any person in the United States or to any U.S. person other than any QIB within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or an affiliate of one of the Dealers. Distribution of this information memorandum by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorized 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 QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Program will be required to represent, warrant and agree, that:

(c) in relation to any Notes which have a maturity of less than one year:

(vi) 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

(vii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(1) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses; or

(2) 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 FSMA by the Issuer;

(d) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(e) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

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 that Relevant Member State:

(a) if the applicable Final Terms 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 Final Terms 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 Final Terms, as applicable;

(b) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(d) at any time to fewer than 100 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;

(e) at any time if the denomination per Note being offered amounts to at least €50,000; or

(f) 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 (a) to (f) 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 includes any relevant implementing measure in each Relevant Member State.

Spain

Each Dealer has acknowledged that the Notes have not been and will not be registered with the Spanish Regulator *(Comisión Nacional del Mercado de Valores).* Accordingly, each of the Dealers has represented and agreed that the Notes may only be offered in Spain in compliance with Law 24/1998, as amended, Royal Decree 1310/2005 and any regulation issued thereunder.

Brazil

Each Dealer has agreed that it has not offered or sold, and will not offer or sell, any Notes in Brazil, except in compliance with applicable Brazilian laws or pursuant to an available exemption therefrom.

The Notes have not been and will not be registered with the CVM 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. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the general public in Brazil or used in connection with any offer for the sale of the Notes to the general public in Brazil. 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.

Bahamas

Each Dealer has agreed that the Notes have not been offered and may not be offered, sold or delivered to persons deemed to be resident in the Bahamas for exchange control purposes without obtaining the prior permission of the Central Bank of the Bahamas.

The Cayman Islands

Each Dealer has agreed that it has not offered or sold, and will not offer or sell, any Notes issued by Santander Grand Cayman Branch to the public in the Cayman Islands. Notes may be issued to ordinary non-resident and exempted companies of the Cayman Islands.

Each Dealer has agreed to comply with 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.

Portugal

Each Dealer has represented and agreed that the Notes may not be offered or sold in Portugal except in accordance with the requirements of the Portuguese Securities Code (*Código de Valores Mobiliários* as approved by the Decree-Law 486/99 dated November 13, 1999) and the regulations governing the offer of securities issued pursuant thereto. Neither a public offer for subscription of the Notes nor a public offer for the sale of the Notes shall be promoted in Portugal.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, each of the Dealers has represented and agreed that it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Notes in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes or the possession, circulation or distribution of this information memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this information memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each prospective purchaser of Notes which are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act ("Restricted Notes") offered in reliance on Rule 144A by accepting delivery of this information memorandum will be deemed to have represented and agreed that such offeree acknowledges that this information memorandum is personal to such offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. Distribution of this information memorandum, or disclosure of any of its contents to any person other than such offeree and those persons, if any, retained to advise such offeree with respect thereto, is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited.

Each purchaser of Restricted Notes offered and sold in reliance on Rule 144A will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(1) The purchaser (A) is a qualified institutional buyer, (B) is aware, and each beneficial holder of such Restricted Notes has been advised, that the sale to it is being made in reliance on Rule 144A and (C) is acquiring such Notes for its own account or for the account of a qualified institutional buyer.

(2) The Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, the Restricted Notes have not been and will not be registered under the Securities Act, and, if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Notes, such Notes may be offered, sold, pledged or otherwise transferred only (A) to a person who the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

(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."

It acknowledges that 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.

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.

(4) Either: (A) the purchaser is not (i) an employee benefit plan subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended, or ERISA, (ii) a plan that is subject to Section 4975 of the U. S. Internal Revenue Code of 1986, as amended, or the Code, or (iii) an entity whose underlying assets are considered "plan assets" within the meaning of ERISA, or (B) the purchaser's purchase and holding of the Notes will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this information memorandum and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that the 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 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.

(4) Either: (A) the purchaser is not (i) an employee benefit plan subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended, or ERISA, (ii) a plan that is subject to Section 4975 of the U. S. Internal Revenue Code of 1986, as amended, or the Code, or (iii) an entity whose underlying assets are considered "plan assets" within the meaning of ERISA, or (B) the purchaser's purchase and holding of the Notes will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

(5) It understands that such 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. THIS LEGEND WILL BE REMOVED AFTER 40 CONSECUTIVE DAYS BEGINNING ON AND INCLUDING THE LATER OF (i) THE DAY ON WHICH THE SECURITIES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S) AND (ii) THE DATE OF THE CLOSING OF THE ORIGINAL OFFERING."

(6) 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.

TAXATION

PROSPECTIVE PURCHASERS OF THE NOTES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE TAX CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE TAX CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the Notes by an individual, entity, trust or organization considered to be a resident or a person domiciled outside of Brazil for tax purposes (a "Non-Resident Holder"). 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 and Notes subject to Currency Constraint, Sovereign Event or Credit Event provisions.

Tax consequences in Brazil are different if the Notes are issued by us acting through our principal office in Brazil ("Brazilian Issuer") or issued through our Grand Cayman Branch ("Santander Cayman").

Payments on Notes Issued by the Brazilian Issuer

Interest (including original issue discount) payable by the Brazilian Issuer to a Non-Resident Holder with respect to the Notes is generally subject to withholding income tax at a rate of 15.0% 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 ("Normative Ruling 252/02"), in the event that a Non-Resident Holder is domiciled in a tax haven jurisdiction (as defined by Brazilian tax laws from time to time), payments of interest (including original issue discount) are also subject to withholding in respect of Brazilian income tax at the general rate of 15.0%. However, pursuant to article 8 of Law No. 9,779 of January 19, 1999, if the relevant average term of the Notes is of less than 96 months, the rate applicable to a Non-Resident Holder domiciled in a tax haven jurisdiction is 25.0% (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 25.0% in payments made to Non-Resident Holders domiciled in tax haven jurisdictions.

According to article 26 of Law No. 10,833, enacted on December 29, 2003, capital gains realized on the disposition of assets located in Brazil by a non-resident to another non-resident made outside Brazil are subject to taxation in Brazil. Santander believes that, based on the fact that the Notes are issued abroad and, therefore, will not fall within the definition of assets located in Brazil for purposes of Law No. 10,833, gains on the sale or other disposition of the Notes made outside Brazil by a Non-Resident Holder, other than a branch or a subsidiary of a Brazilian resident, to another non-Brazilian resident would not be subject to Brazilian taxes. Although, considering the general scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, Santander is unable to predict whether such interpretation will ultimately prevail in the Brazilian courts.

Pursuant to Decree No. 6,306 of December 14, 2007 (Decree No. 6,306/07), as amended, foreign exchange transactions related to interest, fees and commissions in respect to the Notes made by the Issuer are subject to IOF (Tax on Financial Transactions). Under IOF regulations currently in force, the Ministry of Finance is empowered to establish the applicable IOF rate. Since January, 2008, the IOF rate has been set at 0.38% for several foreign exchange transactions. According to section 15, XIX of Decree No. 6,306/07, the liquidation of exchange transactions in connection with foreign financings or loans for the flow of funds both into and out of Brazil, related to funds raised as from October 23, 2008, are subject to IOF over exchange at a 0% rate. The rate is 5.38% for the conversion of foreign loans with term shorter than 90 days into Brazilian currency. Such IOF rate can be increased at any time to a rate up to 25%.

Furthermore, gains realized by a Non-Resident Holder from the sale or other disposition of the Notes to a Brazilian resident are subject to Brazilian income tax at a rate of 15.0% or 25.0%, if the Non-Resident Holder is domiciled in a tax haven jurisdiction (as defined by Brazilian tax laws from time to time). 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 Noteholder (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 donee by the state in which such Brazilian resident resides.

Payments on Notes Issued Through Santander Cayman

If payment of income is made to a Non-Resident Holder by Santander Cayman with respect to Notes issued through Santander Cayman, based on the fact that Santander Cayman is considered to be domiciled outside of Brazil for tax purposes, such payment 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.

Foreign Currency Constraint, Sovereign Event and Credit Event Provisions

Currency Constraint, Sovereign Events or Credit Events are exceptional circumstances. If any such events materialize, the taxation commented above may not be applicable in a situation where constitutional principles are not observed. Noteholders are encouraged to consult with their legal and tax advisors concerning the tax implications of such events, if and when materialized.

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 change in Cayman Islands law that may come into effect after such date.

Payments in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any holder of a Note, and gains derived from the sale 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 brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

European Union Directive on the Taxation of Savings Income

Under Council Directive 2003/48/EC (the "Directive") on the taxation of savings income, Member States (as defined below) are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual, or certain other persons, resident in another Member State (the member states constituting the European Union, collectively the "Member States" and each a "Member State"), except that Austria, Belgium and Luxembourg have instead opted to impose a withholding system in relation to such payments (deducting tax at rates rising over time to 35.0%) for a transitional period unless during that period they elect otherwise. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange the information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of Member States have adopted similar measures (either provision of information or withholding).

The European Commission has published proposals for amendments to the Directive which may amend or broaden the scope of the requirements described above.

Investors who may be affected by any of these arrangements are advised to consult with their own professional advisors.

Certain Material U.S. Federal Income Tax Considerations

The following discussion is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Program, and the relevant Final Terms will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to each such type of Note as appropriate. This summary assumes the Notes are properly treated as debt for U.S. federal income tax purposes. This summary deals only with U.S. Holders of Notes that purchase the Notes at original issuance at their initial "issue price" and that will hold the Notes as capital assets (generally, property held for investment). The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local or non-U.S. tax laws, or any aspect of U.S. federal tax law other than income taxation. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, partnerships and other pass-through entities, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions, conversion transactions or other integrated transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, this summary deals only with Notes with a term of 30 years or less and does not discuss Bearer Notes. The U.S. federal income tax consequences of owning Notes with a longer term will be discussed in the applicable Final Terms. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Notes (which can include taxation of gains recognized from the sale, retirement or other disposition of Bearer Notes at the rates applicable to ordinary income (rather than capital gain), and the disallowance of a deduction for losses recognized on such a disposition of Bearer Notes). U.S. Holders should consult their tax advisors regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of Bearer Notes.

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes created or organized in the United States 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 tax without regard to 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 if the trust has a valid election in place to be treated as a domestic trust for U.S. federal income tax purposes. The U.S. federal income tax treatment of a partner in a partnership (or other entity taxable as a partnership for U.S. federal income tax purposes) that holds Notes will depend on the status of the partner and the activities of the partnership. Partners or partnerships should consult their tax advisors concerning the U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes by the partnership.

This summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed Treasury regulations thereunder, published rulings of the U.S. Internal Revenue Service ("IRS") and court decisions, all as currently in effect and all of which are subject to change at any time, possibly with retroactive effect.

ANY DISCUSSION OF THE U.S. FEDERAL TAX ISSUES SET FORTH IN THIS INFORMATION MEMORANDUM WAS WRITTEN TO SUPPORT THE PROMOTION AND MARKETING OF THE TRANSACTIONS DESCRIBED HEREIN. SUCH DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN INDEPENDENT TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Stated Interest

General

Stated interest on a Note, whether payable in U.S. dollars or a currency other than U.S. dollars (a "foreign currency"), other than interest that is not "qualified stated interest" (as defined below under "Original Issue Discount—General"), generally will be taxable to a U.S. Holder as ordinary income at the time that such interest is received or accrued, depending on the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes and original issue discount ("OID"), if any, accrued with respect to the Notes (as described below under "—Original Issue Discount—General") generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Effect of Brazilian Withholding Taxes

As discussed in "Taxation ─ Brazilian Tax Considerations", payments of interest in respect of the Notes may be subject to Brazilian withholding taxes. In such circumstances, discussed under "Terms and Conditions of the Notes—Taxation", the Issuer may become liable for the payment of additional amounts to U.S. Holders so that U.S. Holders receive the same amounts they would have received had no Brazilian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having actually received the amount of Brazilian taxes withheld by the Issuer (as well as the additional amounts paid by the Issuer in respect thereof) with respect to a Note, and as then having actually paid over the withheld taxes to the Brazilian taxing authorities. As a result, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability for Brazilian income taxes withheld by the Issuer. The limitation on foreign income taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, payments of interest generally will constitute "passive category income." Alternatively, a U.S. Holder may elect to deduct such Brazilian income taxes when computing its U.S. federal taxable income, provided that such U.S. Holder elects to deduct (rather than credit) all foreign income taxes paid or accrued for the taxable year. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign income 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 may not occur until 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 income taxes in the year those taxes are actually withheld by the Issuer. Prospective purchasers should consult their tax advisers concerning the U.S. foreign tax credit implications of the payment of these Brazilian income taxes.

Original Issue Discount

General

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 (a "Discount Note") for U.S. federal income tax purposes if the excess of the Note's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount, which generally is 0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity. An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "installment obligation") will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or more than 0.25% of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the issue price of a Note 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 organizations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest." For this purpose, a qualified stated interest payment is generally any one of a series of stated interest payments on a Note that is unconditionally payable in cash or property, other than additional debt instruments of the issuer, at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "—Variable Interest Rate Notes"). Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

U.S. Holders of Discount Notes must accrue OID into gross income calculated on a constant-yield basis before the receipt of cash attributable to the OID, and generally will have to include in gross income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in gross income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess, if any, of (a) 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 properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount that is 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 that exceeds the adjusted issue price of the Discount Note (any such excess being "acquisition premium"), and does not make the election discussed 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 tax basis in the Discount Note immediately after its purchase over the Discount Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Discount Note after the purchase date, other than payments of qualified stated interest, over the Discount Note's adjusted issue price.

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). For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has previously accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

In general, any gain recognized on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest), and possibly gain realized in certain non-recognition transactions, will be taxable 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 accrue market discount into gross 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, and 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 gross 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 gross 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.

Under current law, 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 without the consent of the IRS.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its stated principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as "amortizable bond premium", in which case the amount required to be included in the U.S. Holder's gross income each year with respect to interest on the Note will be reduced by the amount of amortizable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortize bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Regardless of whether the election to amortize bond premium is made, a U.S. Holder generally will not be required to include OID in gross income for any Note acquired at a 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 described above under "—Original Issue Discount—General", 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 amortizable bond premium or acquisition premium. This election generally will apply only to the Note with respect to which the election is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under "Market Discount" to accrue market discount into gross income currently for all debt instruments with market discount held or thereafter acquired. U.S. Holders should consult their tax advisers concerning the propriety and consequences of making this election.

Variable Interest Rate Notes

Notes that provide for the payment of interest at certain variable rates ("Variable Interest Rate Notes") may constitute "variable rate debt instruments" under the Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if, among other requirements, (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount and (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate. A Variable Interest Rate Note that does not meet the requirements for qualification as a "variable rate debt instrument" under the Treasury regulations generally will be treated as a "contingent payment debt instrument" for U.S. federal income tax purposes. See "—Contingent Payment Debt Instruments" below.

A "qualified floating rate" is any variable rate where 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 the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g. two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Note or is not reasonably expected to affect the yield significantly.

An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g. one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest 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 the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g. the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is 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 a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. See "Payment of Stated Interest" above. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified *de minimis* amount. OID on such a Variable Interest Rate Note arising from "true" discount generally is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) 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 (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent fixed rate debt instrument" for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an equivalent fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an equivalent fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an equivalent fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the equivalent fixed rate debt instrument by applying the general OID rules to the equivalent fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the equivalent fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the equivalent fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

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 gross income as such 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, using a constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in gross income currently, any gain realized on the sale, exchange 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, exchange 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 realized.

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. 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.

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 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 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 may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Contingent Payment Debt Instruments

As discussed above, Notes that provide for the payment of interest at floating rates, but fail to qualify as variable rate debt instruments under applicable Treasury regulations, generally will be treated as "contingent payment debt instruments" for U.S. federal income tax purposes. Additionally, Notes that provide for different payment schedules based upon the occurrence or non-occurrence of certain contingencies may be characterized for U.S. federal income tax purposes as contingent payment debt instruments. Very generally, for a Note that is treated for U.S. federal income tax purposes as a contingent payment debt instrument, applicable Treasury regulations will require a U.S. Holder, regardless of its regular method of tax accounting, (i) to accrue interest income (as OID) over the term of the Note based upon a "comparable yield" for a debt instrument without any contingent payments but otherwise with terms and conditions comparable to the Note, and (ii) to periodically adjust its interest income accruals on the Note for differences between the actual contingent payments received in respect of the Note and the contingent payments reflected on a "projected payment schedule" prepared for the Note as of its issue date. Additionally, any gain upon a sale or other taxable disposition of such a Note generally will be taxable to a U.S. Holder as ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in gross income by the U.S. Holder with respect to the Note, and thereafter, capital loss. ***The comparable yield and projected payment schedule are used to determine accruals of interest for tax purposes only, and are not to be regarded as predictions with respect to the actual yield or payments for a Note***. In the event that the Issuer issues Notes that constitute contingent payment debt instruments, the applicable Final Terms will further describe the material U.S. federal income tax consequences of the acquisition, ownership and disposition of such Notes for U.S. Holders. Prospective U.S. Holders of Notes should consult their own tax advisors regarding the application of the Treasury regulations governing contingent debt instruments.

Sale, Retirement or Other Taxable Disposition of Notes

A U.S. Holder's adjusted tax basis in a Note generally will be its cost, (i) increased by the amount of any OID or market discount included in the U.S. Holder's gross income with respect to the Note (including any amounts of de minimis OID and de minimis market discount included in the U.S. Holder's income as a result of an election to create all interest as OID, as discussed above) and (ii) reduced by the amount of any payments received in respect to the Note that are not qualified stated interest payments and the amount of any amortizable bond premium applied to reduce interest on the Note. A U.S. Holder generally will recognize gain or loss on the sale, retirement or other taxable disposition of a Note equal to the difference between the amount realized on the sale, retirement or other taxable disposition and the adjusted tax basis of the Note. The amount realized does not include any amount attributable to accrued but unpaid qualified stated interest, which will be taxable as interest income to the extent not previously included in gross income by the U.S. holder. Except as described above under "—Market Discount", "—Short-Term Notes" or "—Contingent Payment Debt Instruments" and except to the extent attributable to changes in exchange rates (as discussed below under "—Foreign Currency Notes"), gain or loss recognized on the sale, retirement or other taxable disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. For certain non-corporate U.S. Holders, under current law, long-term capital gains are taxed at preferential rates. The deductibility of capital losses is subject to limitations under the Internal Revenue Code.

Gain or loss realized by a U.S. Holder on the sale, retirement or other taxable disposition of a Note generally will be treated as derived from U.S. sources for purposes of the U.S. foreign tax credit. Accordingly, if any gain from the sale or exchange of a Note is subject to Brazilian or other foreign income tax, a U.S. Holder may not be able to credit such taxes against its U.S. federal income tax liability, because such gain generally would be U.S. source income, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Alternatively, a U.S. Holder may deduct any foreign income taxes, provided that the U.S. Holder does not credit any foreign income taxes paid or accrued in the same taxable year.

Foreign Currency Notes

Interest

If a payment of qualified stated interest is denominated in, or determined by reference to, a single foreign currency, the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the "spot" rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. Under applicable Treasury regulations, the "spot rate" generally means a rate that reflects a fair market rate of exchange available to the public for currency under a "spot contract" in a free market and involving representative amounts. A "spot contract" is a contract to buy or sell a currency on the nearest conventional settlement date, generally two business days following the date of the execution of the contract. If such a spot rate cannot be demonstrated, the IRS has the authority to determine the spot rate. If the amount of qualified stated interest payable in U.S. dollars under the Notes is determined by reference to the U.S. dollar value of a foreign currency at periodic intervals over the term of the Notes, cash basis U.S. Holders will not realize any U.S. source exchange gain or loss in respect of interest payments except to the extent that the exchange rate used to determine the amount of interest payable in U.S. dollars with respect to an interest payment differs from the "spot rate" in effect on the date such payment is received.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to a qualified stated interest payment denominated in, or determined by reference to, a single foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the spot rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the spot rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of qualified stated interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the spot rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of a qualified stated interest payment (including a payment attributable to accrued but unpaid qualified stated interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a single foreign currency, the accrual basis U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. If the amount of a qualified stated interest payable in U.S. dollars under the Notes is determined by reference to the U.S. dollar value of a single foreign currency at periodic intervals over the term of the Notes, an accrual basis U.S. Holder may recognize U.S. source exchange gain or loss equal to the difference between the U.S. dollar value of the foreign currency on the date the interest is received determined based on the "spot rate" in effect on the date the interest is received (which may be different than the exchange rate used to determine the amount of interest payable in U.S. dollars) and the amount previously accrued.

OID

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a single foreign currency will be determined in the foreign currency and then translated into U.S. dollars in the same manner as qualified stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or retirement of the Note), a U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Market Discount

Market discount on a Note that is denominated in, or determined by reference to, a single foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to accrue market discount into gross 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 recognize U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued qualified stated interest or OID. A U.S. Holder that does not elect to include market discount in gross income currently will recognize, 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.

Bond Premium

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a single 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 recognize 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 will recognize a loss when the Notes mature.

Sale, Retirement or Other Taxable Disposition of a Note

As discussed above under "—Sale, Retirement or Other Taxable Disposition of a Note", a U.S. Holder generally will recognize gain or loss on the sale, retirement or other taxable disposition of a Note equal to the difference between the amount realized on the sale, retirement or other taxable disposition and the adjusted tax basis of the Note. A U.S. Holder's initial tax basis in a Note that is denominated in a single foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency generally will be the U.S. dollar value of the purchase price based on the spot rate in effect the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder, or an accrual basis U.S. Holder that so elects, on the settlement date for the purchase.

The amount realized on a sale, retirement or other taxable disposition for an amount in foreign currency will be the U.S. dollar value of the amount of foreign currency received based on the spot rate in effect on the date of sale, retirement or other taxable disposition of a Note or, in the case of a Note traded on an established securities market, as defined in the applicable Treasury regulations, sold by a cash basis U.S. Holder, or an accrual basis U.S. Holder that so elects, on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale, retirement or other taxable disposition of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note) based on the spot rate in effect (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. A U.S. Holder that purchased a Note at a premium and has unamortized premium on the date of sale, retirement or other taxable disposition of the Note will also recognize U.S. source exchange gain or loss equal to the difference, if any, between the U.S. dollar values of the unamortized premium based on the spot rate in effect (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. In either case, any such exchange gain or loss will be realized only to the extent of total gain or loss realized on the sale, retirement or other taxable disposition.

Disposition of Foreign Currency

Foreign currency received as a payment of stated interest on a Note or on the sale, retirement or other taxable disposition of a Note will have a tax basis equal to its U.S. dollar value based on the spot rate in effect at the time the interest is received or at the time of the sale, retirement or other taxable disposition. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency based on the spot rate in effect on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) generally will be U.S. source ordinary income or loss.

Dual Currency Notes

Under Treasury regulations governing "nonfunctional currency contingent payment debt instruments", Dual Currency Notes that meet certain conditions are treated in a manner similar to Notes that constitute "contingent payment debt instruments" for U.S. federal income tax purposes (as discussed above under "Contingent Payment Debt Instruments"). There is no assurance, however, that any particular issuance of Dual Currency Notes will meet the conditions set forth in the Treasury regulations, and the U.S. federal income tax treatment of Dual Currency Notes that do not meet these conditions is unclear. The U.S. federal income tax characterization of Dual Currency Notes may affect the amount, timing and character of income, gain or loss recognized by a U.S. Holder in respect of the Dual Currency Notes. The applicable Final Terms will describe the material U.S. federal income tax consequences of the acquisition, ownership and disposition of such Dual Currency Notes for U.S. Holders. There can be no assurance that the IRS will agree with the characterization of Dual Currency Notes as described in the Final Terms. In light of this uncertainty, prospective U.S. Holders of Dual Currency Notes should consult their own tax advisors regarding the application of the Treasury regulations governing nonfunctional currency contingent payment debt instruments and regarding the U.S. federal income tax treatment of the Dual Currency Notes that do not meet the conditions set forth in such Treasury regulations.

Foreign Currency Constraints, Sovereign Events and Credit Events

There are no regulatory, administrative or judicial authorities that address the U.S. federal income tax treatment of debt instruments containing provisions such as Foreign Currency Constraints, Sovereign Events and Credit Events. Accordingly, the U.S. federal income tax consequences of Notes issued with Foreign Currency Constraint, Sovereign Event or Credit Event provisions are uncertain and could be materially different (and potentially more adverse to U.S. Holders) than those described herein. In particular, Notes issued with a Foreign Currency Constraint, Sovereign Event or Credit Event feature may be treated as contingent payment debt instrument or may not be characterized as indebtedness under U.S. federal income tax principles. Alternatively, a U.S. Holder that acquires a Note subject to a Foreign Currency Constraint, Sovereign Event or Credit Event could be treated as having purchased a debt instrument and having purchased a put option from (in the case of the Foreign Currency Constraint) or written a put option to (in the case of the Sovereign Event or the Credit Event) the Issuer. U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax considerations applicable to the acquisition, ownership, and disposition of Notes subject to a Foreign Currency Constraint, Sovereign Event or Credit Event.

Backup Withholding and Information Reporting

In general, payments of stated interest and accrued OID on, and the proceeds of a sale, exchange, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary, will be reported to the IRS and to the U.S. Holder as may be required under applicable Treasury regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. Backup withholding is not additional tax. Amounts withheld may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS in a timely manner. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.$50,000 in a single taxable year if the U.S. Holder is an individual or trust, or higher amounts for other U.S. Holders. In the event the acquisition, ownership or disposition of Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, ownership or disposition of Notes.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended, or ERISA, imposes certain requirements on employee benefit plans subject to Title I of ERISA and on entities that are deemed to hold the assets of such plans, or ERISA Plans, and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, Plans)) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if Notes are acquired, held or disposed of by a Plan with respect to which the Issuer, the Global Arranger, the Dealers or any of their respective affiliates is a party in interest or a disqualified person and such acquisition, holding or disposition is not entitled to an exemption, several of which may be applicable. There can be no assurance however that the conditions of any exemption will be available with respect to the acquisition, holding or disposition of the Notes.

Each purchaser of the Notes will be deemed to have represented and agreed that either: (A) the purchaser is not (i) a Plan, or (ii) an entity whose underlying assets are considered "plan assets" within the meaning of ERISA or (B) the purchaser's purchase and holding of the Notes will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Due to the complexity of these rules and the potential penalties for any non-exempt prohibited transactions, we would advise any persons considering purchasing our Notes on behalf of, or with the assets of, any Plan to consult with their counsel regarding these matters.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Each Plan fiduciary should consult with its legal advisor concerning the potential consequences to the plan under ERISA or the Code of an investment in the Notes.

ENFORCEABILITY OF JUDGMENTS

We are a financial institution organized under the laws of Brazil. Substantially all of our directors and executive officers reside in Brazil or elsewhere out of England, and all or substantially all of the assets of such persons may be, and, except for the assets held abroad through branches and subsidiaries, substantially all of our assets are located in Brazil. As a result, it may not be possible for investors to effect service of process within England or other jurisdictions outside Brazil upon such persons or to enforce against such persons or against us judgments obtained in the courts of England or other jurisdictions outside Brazil, including judgments predicated upon English law or laws of such other jurisdictions. In the terms and conditions of the Program or any Notes issued under the Program, we will (i) agree that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the Securities and, for such purposes, irrevocably submit to the jurisdiction of such courts and (ii) name an agent for service of process in England. See "Terms and Conditions."

Judgments of English courts for civil liabilities against us (including the Grand Cayman Branch) predicated upon laws of England may be enforced in Brazil, subject to certain requirements described below. A judgment against us or any other person referred to above obtained outside of Brazil would be enforceable in Brazil against Santander or any such person without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*). Such confirmation would be provided if the foreign judgment (i) fulfils all formalities required for its enforceability under the laws of the country where the foreign judgment is granted, (ii) is issued by a competent court after proper service of process is made in accordance with Brazilian law, (iii) is not subject to appeal, (iv) is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese and (v) is not contrary to Brazilian national sovereignty, "good morals" or public policy. Notwithstanding the foregoing, no assurance can be given that the confirmation process described above can be conducted in a timely manner.

Further, we note that: (a) original actions based on the federal securities laws of England may be brought in Brazilian courts and that, subject to Brazilian public policy and national sovereignty, Brazilian courts may enforce liabilities in such actions against us, our directors, certain of their executive officers and certain of the experts named in this information memorandum; and (b) the ability of a judgment creditor or the other persons named above to satisfy a judgment by attaching certain of our assets 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 Brazil during the course of litigation in Brazil and does not own real property in Brazil must post a bond to cover the court costs and legal fees of the defendant. The bond must have a value sufficient to satisfy the payment of the court fees and the defendant's attorney fees, as determined by the Brazilian judge. This requirement does not apply to the enforcement of foreign judgments which have been duly confirmed by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*) and in case of collection claims based on an instrument (which does not include the Notes issued hereunder) that may be enforced in Brazil without the review of its merit (*titulo executivo extrajudicial*) or counterclaims (*reconvenções*). Notwithstanding the foregoing, no assurance can be given that the process described above can be conducted in a timely manner.

LEGAL MATTERS

The validity of our Notes under Brazilian law will be passed upon by Pinheiro Neto Advogados, Brazilian counsel to the Arranger and Dealers. Santander has been represented as to English and U.S. legal matters by Shearman & Sterling LLP. The Arranger and Dealers have been represented as to English and U.S. legal matters by Linklaters LLP. The Arranger and Dealers have been represented as to Cayman Island legal matters by Maples and Calder.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements of Santander Brasil at and for the years ended December 31, 2009, 2008 and 2007 included elsewhere in this information memorandum, have been audited by Deloitte Touche Tohmatsu Auditores Independentes, an independent registered public accounting firm, as stated in their report appearing therein.

The combined financial statements of Banco Real at and for the year ended December 31, 2007 and for the period from January 1 to August 29, 2008 included elsewhere in this information memorandum, have been audited by Deloitte Touche Tohmatsu Auditores Independentes, an independent registered public accounting firm, as stated in their report included therein (which report expresses a qualified opinion on the financial statements relating to the omission of the combined balance sheet as of August 29, 2008 and includes an explanatory paragraph relating to the fact that such combined financial statements of Banco Real have been prepared to comply with the requirements of Rule 3-05 of Regulation S-X of the United States Securities Exchange Commission as it relates to the registration statement of Santander Brasil).

GENERAL INFORMATION

(1) We operate as a multiple service bank in accordance with Article 4 of its Articles of Association. The establishment of the Program and the issuance of the Notes thereunder by us are authorized by our By-laws and by a resolution of its Executive Commission, passed on March 11, 2003. No separate resolutions by the Santander Grand Cayman Branch are required.

(2) Application has been made to admit Notes issued under the Program for listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. Santander may apply to, but is not obliged to, admit the Notes to be issued under the Program to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. The Final Terms applicable to a Series will specify whether or not Notes of such Series have been admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. In case the Notes are not admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market, Santander is not obliged to list the Notes on any other stock exchange.

(3) The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg clearance systems. The appropriate Common Code and International Securities Identification Number (ISIN) for each series of Notes will be set forth in the Final Terms relating thereto. In addition, the Issuer will (or, in relation to Notes denominated in a currency other than U.S. dollars, may) make an application with respect to each Series of Notes sold pursuant to Rule 144A for such Notes to be accepted for trading in book-entry form by DTC. All payments of principal and interest with respect to Notes denominated in any currency other than U.S. dollars and registered in the name of the nominee for DTC will be converted to U.S. dollars unless the relevant participants in DTC elect to receive such payment of principal or interest in that other currency. Acceptance of each Series of Notes for trading through DTC will be confirmed in the Final Terms relating thereto.

(4) Copies of the Information Memorandum and any supplemental information memorandum, the Final Terms, the Trust Deed, the documents of our incorporation, our most recent audited consolidated annual financial statements (in English), and the most recent audited consolidated semi-annual financial statements (in English) of Santander may be obtained free of charge, during the term of the Notes: (i) in the City of Luxembourg, at the office of the Listing Agent for the Notes on the Luxembourg Stock Exchange, (ii) at the office of any Paying Agent and (iii) at our registered office in São Paulo, Brazil. We do not publish any unconsolidated financial statements.

(5) 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 of 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.

(6) The financial statements included elsewhere in this information memorandum have been prepared in accordance with Brazilian GAAP. Since December 31, 2009 (the date of the latest audited financial statements of the Issuer which are included elsewhere in this information memorandum), except as disclosed herein, there has been no material adverse change in the condition, financial or otherwise, or in the earnings, operations, business affairs or business prospects of the Issuer.

(7) Except as disclosed herein, there are no pending actions, suits or proceedings against or affecting the Issuer which, if determined adversely, would, individually or in the aggregate, have a material adverse effect on the condition, financial or otherwise, or on the earnings, operations, business affairs or business prospects of Santander as a whole, or be material in the context of the issuance of the Notes and the listing of the Notes, and to the best knowledge of the Issuer, no such actions, suits or proceedings are threatened or contemplated.

(8) Each Final Terms will set forth, with regard to each Series of Notes, if any, in respect of which this information memorandum is being delivered, certain information relating to the issuance of Notes under the Program. A form of Final Terms is attached to this information memorandum as Annex A.

(9) All the members of the Board of Directors and officers of the Executive Board of the Issuer and certain experts named herein reside outside the United States. Substantially all the assets of these persons and of the Issuer are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce in the United States against such persons or the Issuer judgments obtained in the United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

(10) All consents, approvals, authorizations and other orders of all regulatory authorities under the laws of Brazil or the Cayman Islands have been given for the establishment of the Program, the issuance of Notes under the Program and the execution of the Trust Deed and are in full force and effect, except for (A) where we are acting through our head office in Brazil, the (i) registration of the main financial terms under the relevant Declaratory Registry of Financial Operations (*Registro Declaratório de Operações Financeiras*, or "ROF") on the System of Information of the Central Bank for the issue of any series of Notes by us, which shall be obtained prior to any such issuance, (ii) Schedule of Payments in connection with any such issuance, which shall be obtained after the entry of the related proceeds into Brazil, and (iii) further authorization from the Central Bank required to enable us to remit payments abroad in foreign currency under any series of Notes other than scheduled payments of principal, interest, commissions, costs and expenses contemplated by the relevant ROF or to make any payment provided for in such ROF earlier than the due date thereof or on a date after the 120th day from the payment dates scheduled therein, and (B) where we are acting through our Cayman Islands Branch, the approval of the Central Bank for us to make any payment in the relevant Specified Currency with funds derived from Brazilian sources.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Banco Santander (Brasil) S.A.
Sao Paulo - SP - Brazil

We have audited the consolidated balance sheets of Banco Santander (Brasil) S.A. and its subsidiaries ("Bank") as of December 31, 2009 and 2008, and the related consolidated statements of income, statements of recognized income and expense, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009, all expressed in Brazilian reais. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Bank and its subsidiaries; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Bank at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board.

March 25, 2010

Deloitte Touche Tohmatsu

BANCO SANTANDER (BRASIL) S.A.
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2009 AND 2008

ASSETS	Note	2009	2008
		(Thousands of Brazilian *Reais*)	
CASH AND BALANCES WITH THE BRAZILIAN CENTRAL BANK	4	27,269,012	23,700,500
FINANCIAL ASSETS HELD FOR TRADING		20,115,652	19,986,000
Loans and advances to credit institutions	5	67,170	–
Debt instruments	6	12,554,035	10,011,999
Equity instruments	7	2,544,441	678,993
Trading derivatives	8 & 41-a	4,950,006	9,295,008
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		16,294,460	5,574,961
Loans and advances to credit institutions	5	1,907,265	4,046,898
Loans and advances to customers	9	389,113	1,434,789
Debt instruments	6	210,973	93,274
Equity instruments	7	13,787,109	–
AVAILABLE-FOR-SALE FINANCIAL ASSETS		46,406,120	30,735,681
Debt instruments	6	44,745,924	29,491,191
Equity instruments	7	1,660,196	1,244,490
LOANS AND RECEIVABLES		152,162,954	162,725,106
Loans and advances to credit institutions	5	24,228,143	29,691,635
Loans and advances to customers	9	127,934,811	133,033,471
HEDGING DERIVATIVES	41-a	163,425	106,321
NON-CURRENT ASSETS HELD FOR SALE	10	171,464	112,824
INVESTMENTS IN ASSOCIATES	11	419,122	633,595
TANGIBLE ASSETS	12	3,701,769	3,829,074
INTANGIBLE ASSETS		31,617,939	30,995,287
Goodwill	13	28,312,236	27,488,426
Other intangible assets	14	3,305,703	3,506,861
TAX ASSETS		15,779,222	12,919,894
Current		2,162,063	1,150,737
Deferred	23	13,617,159	11,769,157
OTHER ASSETS	15	1,871,437	2,870,604
TOTAL ASSETS		**315,972,576**	**294,189,847**

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements.

BANCO SANTANDER (BRASIL) S.A.
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2009 AND 2008

LIABILITIES AND EQUITY	Note	2009	2008
		(Thousands of Brazilian *Reais*)	
FINANCIAL LIABILITIES HELD FOR TRADING		4,434,734	11,209,600
Trading derivatives	8 & 41-a	4,401,709	11,197,268
Short positions	8	33,025	12,332
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		1,795	307,376
Deposits from credit institutions	16	1,795	307,376
FINANCIAL LIABILITIES AT AMORTISED COST		203,567,734	213,973,314
Deposits from the Brazilian central bank	16	240,113	184,583
Deposits from credit institutions	16	20,955,846	26,325,636
Customer deposits	17	149,440,156	155,494,839
Marketable debt securities	18	11,439,010	12,085,655
Subordinated liabilities	19	11,304,445	9,197,429
Other financial liabilities	20	10,188,164	10,685,172
HEDGING DERIVATIVES	41-a	9,806	264,771
LIABILITIES FOR INSURANCE CONTRACTS	2-z	15,527,197	–
PROVISIONS		9,480,262	8,915,245
Provisions for pensions funds and similar obligations	21	1,096,799	1,078,916
Provisions for contingent liabilities, commitments and other provisions	21	8,383,463	7,836,329
TAX LIABILITIES		9,456,537	6,156,101
Current		5,588,680	3,025,207
Deferred	23	3,867,857	3,130,894
OTHER LIABILITIES	22	4,227,768	3,526,962
TOTAL LIABILITIES		**246,705,833**	**244,353,369**
EQUITY			
SHAREHOLDERS' EQUITY	26	68,706,363	49,317,582
Issued capital		62,612,455	47,152,201
Reserves		2,161,302	1,240,031
Profit for the year attributable to the Parent		5,507,606	2,378,395
Less: Dividends and remuneration		(1,575,000)	(1,453,045)
VALUATION ADJUSTMENTS		559,042	513,617
Available-for-sale financial assets	25	791,966	795,412
Cash flow hedges	25	(232,924)	(281,795)
MINORITY INTERESTS	24	1,338	5,279
TOTAL EQUITY		**69,266,743**	**49,836,478**
TOTAL LIABILITIES AND EQUITY		**315,972,576**	**294,189,847**

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements.

BANCO SANTANDER (BRASIL) S.A.
CONSOLIDATED INCOME STATEMENTS FOR
THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Note	2009	2008	2007
		(Thousands of Brazilian *Reais*, except for per share data)		
Interest and similar income	29	39,342,956	23,767,814	13,197,368
Interest expense and similar charges	30	(17,175,865)	(12,329,845)	(7,002,082)
INTEREST INCOME/(net)		**22,167,091**	**11,437,969**	**6,195,286**
Income from equity instruments	31	29,903	36,972	36,387
Income from companies accounted for by the equity method	11	295,414	112,330	5,884
Fee and commission income	32	7,148,164	4,809,014	3,363,518
Fee and commission expense	33	(910,402)	(555,311)	(265,546)
Gains/losses on financial assets and liabilities (net)	34	2,716,323	(1,286,113)	1,516,664
Held for trading		2,032,272	(1,214,846)	254,128
Other financial instruments at fair value through profit or loss		(10,132)	39,956	24,873
Financial instruments not measured at fair value through profit or loss		755,916	320,307	1,236,856
Other		(61,733)	(431,530)	807
Exchange differences (net)	35	(51,191)	1,475,779	381,587
Other operating income (expense)	36	(115,624)	(59,817)	132,924
TOTAL INCOME		**31,279,678**	**15,970,823**	**11,366,704**
Administrative expenses		(10,947,217)	(7,184,937)	(4,460,217)
Personnel expenses	37	(5,510,972)	(3,548,162)	(2,384,267)
Other general expenses	38	(5,436,245)	(3,636,775)	(2,075,950)
Depreciation and amortization	12&14	(1,248,612)	(846,005)	(579,746)
Provisions (net)	21	(3,480,693)	(1,230,317)	(1,196,412)
Impairment losses on financial assets (net)		(9,966,404)	(4,099,284)	(2,159,437)
Loans and receivables	9	(9,982,881)	(4,102,645)	(2,179,843)
Other financial instruments not measured at fair value through profit or loss		16,477	3,361	20,406
Impairment losses on other assets (net)		(900,554)	(77,277)	(298,082)
Other intangible assets	14	(859,216)	(52,002)	(227,533)
Other assets		(41,338)	(25,275)	(70,549)
Gains on disposal of assets not classified as non-current assets held for sale	39	3,369,301	6,611	861
Gains on non-current assets held for sale not classified as discontinued operations	40	31,630	9,219	13,470
OPERATING PROFIT BEFORE TAX		**8,137,129**	**2,548,833**	**2,687,141**
Income taxes	23	(2,629,165)	(170,207)	(784,142)
CONSOLIDATED PROFIT FOR THE YEAR		**5,507,964**	**2,378,626**	**1,902,999**
Profit attributable to the Parent		5,507,606	2,378,395	1,902,999
Profit attributable to minority interests	24	358	231	–
EARNINGS PER SHARE (Brazilian *reais*)				
Basic and diluted earnings per 1,000 share (*reais*)				
Common shares		15,32	11,59	14,02
Preferred shares		16,85	12,75	15,43
Weighted average shares outstanding (in thousands) – Basic and diluted				
Common shares		183,650,861	104,926,194	69,383,705
Preferred shares		159,856,132	91,168,064	60,285,449

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements.

BANCO SANTANDER (BRASIL) S.A.
CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	2009	2008	2007
	(Thousands of Brazilian *Reais*)		
CONSOLIDATED PROFIT FOR THE YEAR	**5.507.964**	**2.378.626**	**1.902.999**
OTHER RECOGNIZED INCOME AND EXPENSE	**45.425**	**(1.023.427)**	**(46.824)**
Available-for-sale financial assets	62.088	(1.099.982)	(58.787)
Revaluation gains/losses	*818.004*	*(779.675)*	*1.178.069*
Amounts transferred to income statement	*(755.916)*	*(320.307)*	*(1.236.856)*
Cash flow hedges	65.017	*(447.792)*	–
Revaluation gains/losses	*65.017*	*(447.792)*	–
Income taxes	(81.680)	*524.347*	11.963
TOTAL RECOGNIZED INCOME AND EXPENSE	**5.553.389**	**1.355.199**	**1.856.175**
Attributable to the Parent	5.553.031	1.354.968	1.856.175
Attributable to minority interests	358	231	–
TOTAL	**5.553.389**	**1.355.199**	**1.856.175**

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements.

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BANCO SANTANDER (BRASIL) S.A.

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED DECEMBER 31, 2009

	Equity Attributable to the Parent						
	Shareholders' Equity						
	Share Capital	**Reserves**	**Treasury Shares**	**Profit Attributed to the Parent**	**Dividends and Remuneration**	**Total Shareholders' Equity**	**Valuation Adjustments**
					(Thousands of Brazilian *Reais*)		
Balances at January 1, 2007	**6,831,448**	**1,263,450**	**–**	**–**	**(559,033)**	**7,535,865**	**1,583,868**
Total recognized income and expense	**–**	**–**	**–**	**1,902,999**	**–**	**1,902,999**	**(46,824)**
Other Changes in Equity	–	–	–	–	–	–	–
Dividends/Remuneration	–	(559,033)	–	–	(1,705,735)	(2,264,768)	–
Capital increase	1,500,000	–	–	–	–	1,500,000	–
Other	–	(2,617)	–	–	–	(2,617)	–
Balances at December 31, 2007	**8,331,448**	**701,800**	**–**	**1,902,999**	**(2,264,768)**	**8,671,479**	**1,537,044**
Total recognized income and expense	–	–	–	2,378,395	–	2,378,395	(1,023,427)
Other Changes in Equity	–	–	–	–	–	–	–
Appropriation of profit for the year	–	1,902,999	–	(1,902,999)	–	–	–
Dividends/Remuneration	–	(2,264,768)	–	–	811,723	(1,453,045)	–
Capital increase	38,820,753	900,000	–	–	–	39,720,753	–
Other	–	–	–	–	–	–	–
Balances at December 31, 2008	**47,152,201**	**1,240,031**	**–**	**2,378,395**	**(1,453,045)**	**49,317,582**	**513,617**
Total recognized income and expense	**–**	**–**	**–**	**5,507,606**	**–**	**5,507,606**	**45,425**
Other Changes in Equity	–	–	–	–	–	–	–
Appropriation of profit for the year	–	2,378,395	–	(2,378,395)	–	–	–
Dividends/Remuneration	–	(1,453,045)	–	–	(121,955)	(1,575,000)	–
Capital increase	15,460,254	–	–	–	–	15,460,254	–
Acquisition of own shares	–	–	(1,948)	–	–	(1,948)	–
Other	–	(4,079)	1,948	–	–	(2,131)	–
Balances at December 31, 2009	**62,612,455**	**2,161,302**	**–**	**5,507,606**	**(1,575,000)**	**68,706,363**	**559,042**

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements.

BANCO SANTANDER (BRASIL) S.A.
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	2009	2008	2007
	(Thousands of Brazilian *Reais*)		
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated profit for the year	5,507,964	2,378,626	1,902,999
Adjustments to profit	10,885,192	5,108,513	4,211,636
Depreciation of tangible assets	447,138	301,731	237,695
Amortization of intangible assets	801,474	544,274	342,051
Impairment losses on other assets (net)	859,216	52,002	227,533
Provisions (net)	13,463,574	5,332,962	3,376,255
Gains (net) on disposal of tangible assets and investments	(3,369,301)	(6,611)	(861)
Share of results of entities accounted for using the equity method	(295,414)	(112,330)	(5,884)
Changes in deferred tax assets and liabilities	(1,021,495)	(1,003,515)	34,847
	16,393,156	**7,487,139**	**6,114,635**
Net (increase) decrease in operating assets:	**(11,825,066)**	**(38,972,480)**	**3,472,971**
Brazilian central bank compulsory deposits	(1,588,979)	(958,826)	(1,257,825)
Financial assets held for trading	2,129,972	(1,450,457)	10,700,999
Other financial assets at fair value through profit or loss	78,642	(3,927,155)	(1,647,806)
Available-for-sale financial assets	(13,703,838)	(3,979,372)	9,527,782
Loans and receivables	1,182,820	(27,988,641)	(14,078,839)
Other assets	76,317	(668,029)	228,660
Net increase (decrease) in operating liabilities:	**(16,781,599)**	**18,275,075**	**5,856,990**
Financial liabilities held for trading	(6,776,832)	5,394,798	2,332,780
Other financial liabilities at fair value through profit or loss	(305,581)	(382,909)	690,285
Financial liabilities at amortized cost	(9,816,481)	15,048,503	6,760,404
Other liabilities	117,295	(1,785,317)	(3,926,479)
Total net cash flows from operating activities(1)	**(12,213,509)**	**(13,210,266)**	**15,444,596**
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments	**(3,282,214)**	**(2,791,665)**	**(1,570,030)**
Tangible assets	(1,815,803)	(2,103,308)	(326,858)
Intangible assets	(1,466,411)	(688,357)	(1,243,172)
Net cash received on acquisition of subsidiary	**–**	**12,147,982**	**–**
Divestments	**5,862,334**	**600,613**	**59,902**
Subsidiaries, jointly controlled entities and associates	4,436,325	–	–
Tangible assets	1,426,009	600,613	59,902
Total net cash flows from investing activities(2)	**2,580,120**	**9,956,930**	**(1,510,128)**
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Capital increase	12,986,710	800,000	607,043
Acquisition of own shares	(1,948)	–	–
Issuance of subordinated liabilities	1,507,000	651,000	–
Issuance of other long-term liabilities	14,746,518	12,148,373	2,370,030
Dividends paid	(1,540,914)	(1,502,647)	(900,010)
Redemption of other long-term liabilities	(16,080,145)	(8,378,657)	(1,918,130)
Increase/Decrease in minority interests	(4,299)	–	–
Total net cash flows from financing activities(3)	**11,612,922**	**3,718,069**	**158,933**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (1+2+3)	**1,979,533**	**464,733**	**14,093,401**
Cash and cash equivalents at beginning of year	**16,750,870**	**16,286,137**	**2,192,736**
Cash and cash equivalents at end of year	**18,730,403**	**16,750,870**	**16,286,137**
Non-cash transactions:			
Loans transferred to foreclosed assets	(183,195)	166,579	73,348
Shares issued in connection with acquisition of Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A.	–	38,920,753	–
Shares issued in conection with acquisition of Santander Seguros S.A., Banco Comercial e de Investimento Sudameris S.A. and Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	2,471,413	–	–
Dividends and interest on capital declared but not paid	1,451,529	1,413,748	1,463,350
Supplemental information:			
Interest received	37,399,672	22,468,869	12,926,559
Interest paid	16,860,547	11,952,981	7,108,238
Taxes paid	1,973,257	918,677	392,791

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements.

1. Introduction, basis of presentation of the consolidated financial statements and other information

a) Introduction

Banco Santander (Brasil) S.A. (the “Bank” or “Santander” or “Banco Santander”), indirectly controlled by Banco Santander, S.A., with headquarters in Spain (Banco Santander Spain), is the lead institution of the financial and non-financial brazilian Santander Group companies with the Brazilian Central Bank, established as a corporation, with main offices at Rua Amador Bueno, 474, Santo Amaro, São Paulo, and operates as a multiple service bank, conducting operations such as commercial, foreign exchange, investment, credit and financing and mortgage loan, leasing portfolios and, through related entities, insurance, pension plan, capitalization, leasing, asset management, and securities and insurance brokerage operations. Transactions are conducted within the context of a conglomerate of financial institutions that operate on an integrated basis in the financial and capital markets.

On February 2, 2010, it was approved by the Board of Directors, the change of the Head office of Banco Santander to Avenida Presidente Juscelino Kubitschek, 2041 and 2235 – Bloco A, Vila Olimpia, São Paulo.

As discussed in note 3, Banco ABN AMRO Real S.A. (Banco Real) and ABN AMRO Brasil Dois Participações S.A. (“AAB Dois Par”) and their respective subsidiaries were consolidated by the Bank as from August 2008.

b) Global Offering of shares

The Board of Directors’ meeting held on September 18, 2009 approved the implementation of the public offering, denominated Global Offering, which included the issue of 525,000,000 Units (Each representing one of 55 common shares and 50 preferred shares), all registered shares, without par value, free and clear of any liens or encumbrances, consisting of the simultaneous initial public offering of, (i) of Units in Brazil (Brazilian Offering), on the over-the-counter, in accordance with Brazilian Securities and Exchange Commission (CVM) Instruction 400/2003, and (ii) Units abroad, including in the form of ADRs representing ADSs registered with the U.S. Securities and Exchange Commission (SEC) under the Securities Act of 1933 the United States of America.

At the same meeting was approved the listing of Banco Santander and the trade of the Units of common shares and preferred shares in BM&FBovespa – Securities, Commodities and Futures exchanges (BM&FBovespa) level 2 Corporate Governance Practices.

The Global Offering was coordinated on a firm guarantee of settlement. Under the Article 24 of CVM Instruction 400/2003, the total number of Units/ADSs initially offered in the Global Offering (excluding the Additional Units, as defined below) was increased in 6.85 %, i.e., which means 35,955,648 Units, in the form of ADSs under the same conditions and at the same price of the Units/ADSs initially offered (Supplemental Units), according to the options granted to Credit Suisse Securities (USA) LLC, designed to meet a possible excess of demand over the Global Offering (Supplemental Option).

Under the Article 14, paragraph 2 of CVM Instruction 400, the total number of Units initially offered (not including the supplemental Units) could have been but were not increased. (to a maximum of 4.76%), i.e., up to 25,000,000 Units, including the form of ADSs under the same conditions and at the same price initially offered the Units (Additional Units).

The Brazilian Offering was directed in the Retail Offer, to Non-Institutional Investors and the Institutional Offer to Institutional Investors.

On October 6, 2009, the Global Offering shares were priced at R$23.50 per Unit. The Units are traded on the BM&FBOVESPA and the New York Stock Exchange (NYSE) as of October 7, 2009.

The other characteristics and terms set out in the "Final Global Offering Prospect for the Initial Public Offering of Certificates of Deposit Shares (Units) Issuance of Banco Santander (Brasil) S.A.", dated October 6,2009, and the Notice to the Market, is available at www.santander.com.br and the website of the CVM and its English version of the Prospectus on Form-F1, available on the SEC website.

On October 29, 2009, due to the completion of the Global Offering and the partial exercise of the Supplemental Option, the Bacen approved the capital increase.

The results of the Global Offering was disclosed under the closing announcement published in issues of Valor Econômico on November 10, 2009.

c) Basis of presentation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements for the year ended December 31, 2008 and 2007 were the first to be prepared in accordance with IFRS, with a date of first implementation of January 1, 2007 (opening balance sheet). The statutory financial statements have been prepared locally in Brazil in accordance with accounting practices established by Brazilian Corporate Law and standards established by the National Monetary Council (CMN), the Brazilian Central Bank (BACEN) and the Brazilian Securities Commission (CVM), the National Council of Private Insurance (CNSP) and the Superintendency of Private Insurance (SUSEP). Hereafter it shall be referred to as "Brazilian GAAP".

The note 45 to the consolidated financial statements contains the reconciliation of the shareholders' equity and the results for the year ended December 31, 2007, and in accordance to the CVM regulation, the years ended December 31, 2009 and 2008.

The notes to the consolidated financial statements contain supplementary information to that presented in the consolidated balance sheet, consolidated income statement, consolidated statement of recognize income and expense, consolidated statement of changes in total equity and consolidated cash flow statement. The Notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and breakdowns of these financial statements.

All accounting policies and measurement bases with a material effect on the consolidated financial statements were applied in their preparation. There were no changes in accounting policies and estimates during the year ended on December 31, 2009.

The financial statements for the year ended on December 31, 2009 was approved by the Board of Directors at the meeting held on March 25, 2010.

Adoption of new standards and interpretations

All standards and interpretations which came into force were adopted by the Bank in 2009. Following are the standards and interpretations aplicable to the Bank:

- Revision of IAS 1 Presentation of Financial Statements: introduces certain changes in the presentation of financial statements, including changes to the titles of individual financial statements, since balance sheet could be also referred to as a statement of financial position. The statement of changes in equity will only include changes in equity arising from transactions with owners acting in their capacity as owners. As regards "non-owner" changes (e.g. transactions with third parties or income and expenses recognized directly in equity), entities are no longer permitted to present items of other comprehensive income separately in the statements of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity. All items of income and expense (including those recognized outside of profit or loss) must be presented either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement and a statement of comprehensive income). IAS 1 also introduces new reporting requirements when the entity applies a change in accounting policy retrospectively, makes a restatement or reclassifies items in previously issued statements.

Paragraph 10 of the revised IAS 1 provides the possibility of changing the names of the financial statements. The new terminology which could be used to refer to the financial statements is as follows:

- The balance sheet becomes the statement of financial position.

- The statement of recognised income and expense becomes the statement of comprehensive income.

- The statement of cash flows does not undergo any terminology changes.

In preparing these financial statements the Bank has retained the names of the financial statements used in the consolidated financial statements for 2008.

- Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation: the amendments address the classification of puttable financial instruments and obligations arising only on liquidation. Following the revisions, this instruments are presented as equity provided that they meet certain criteria including that of being the most subordinated class, and they evidence a residual interest in the net assets of the entity.

- Amendments to IFRS 1 and IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate: this amendment refers to separate financial statements and, therefore, is not applicable to consolidated financial statements.

- Amendment to IFRS 7 Financial Instruments: the objective of this amendment is basically to increase disclosure requirements. It increases the requirements for disclosure of fair value measurement and liquidity risk.

- Amendment to IAS 39 and IFRIC 9 clarifying the treatment of embedded derivatives for companies which have made use of the Amendment to IAS 39 on reclassifications, issued by the IASB. This amendment clarifies that in a reclassification of an asset in the "financial assets at fair value through profit or loss" category all the embedded derivatives must be measured and, where necessary, accounted for separately in the financial statements.

- IFRIC 13 Customer Loyalty Programmes: this interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards as part of a sales transaction, such as credit card reward schemes.

- Amendments to IAS 39, Eligible Hedged Items: this amendment establishes that inflation may only be designated as a hedged item if it is a contractually specified portion of the cash flows to be hedged. Only the intrinsic value and not the time value of a purchased option may be used as a hedge instrument.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation: this interpretation clarifies the following matters: (i) the exposure to foreign exchange differences between the functional currency of the foreign operation and the presentation currency of the parent cannot be designated as a hedged risk, and only the foreign currency exposure arising between the functional currency of the parent and that of its foreign operation qualifies for hedge accounting; (ii) the hedging instrument used to hedge the net investment may be held by any entity within the Bank, not necessarily by the parent of the foreign operation; and, (iii) it addresses how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item on disposal of the foreign operation.

- IFRS 2 Share-based payment: Vesting conditions and cancellations The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company.

Improvements to IFRS' were issued in May 2008. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009, with earlier application permitted. The adoption of the above-mentioned standards and interpretations did have not a material effect on the consolidated financial statements taken as a whole.

Standards and interpretations effective subsequent to December 31, 2009

The Bank has not yet adopted the following new or revised IFRS or Interpretations, which have been issued but their effective date is subsequent to the date of these financial statements:

- IFRS 9 – Financial Instruments: Recognition and Measurement – The main changes of IFRS 9 compared to IAS 39 are: (i) all financial assets are initially measured at fair value and, in the case of a financial asset not at fair value through profit or loss, plus transactions costs. (ii) new requirements for classifying and measuring financial assets. The standard divides all financial assets that are currently in the scope of IAS 39 in two classifications: amortised cost and fair value (iii) the IAS 39's available for sale and held to maturity categories were eliminate. (iv) the embedded derivatives concept of IAS 39 is not included in IFRS 9.

- Amendments to IFRS 2: The amendment of IFRS 2 provide additional guidance on the accounting for share-based payment transactions among group entities (incorporating guidance previously contained in IFRIC 11).

- Revision of IFRS 3 Business Combinations and Amendment to IAS 27 Consolidated and Separate Financial Statements: introduce significant changes in several matters relating to accounting for business combinations, and only applied prospectively. These changes include the following: acquisition costs must be expensed, rather than recognized as an increase in the cost of the business combination; in step acquisitions the acquirer must remeasure at fair value the investment held prior to the date that control is obtained; and there is an option to measure at fair value the minority interests of the acquiree, as opposed to the single current treatment of measuring them as the proportionate share of the fair value of the net assets acquired.

- Revision to IAS 32: Classification of Rights Issues: otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

- IAS 38 Intangible Assets: Amendments to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction- This IFRIC has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset. Entities shall apply this Interpretation prospectively for annual periods beginning on or after January 1, 2011. The Company's management estimates that the application of the amendments of IFRIC 14 will not have a material effect on the Company's financial condition or results of operations.

- IFRIC 17 Distributions of Non-cash Assets to Owners – The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

- IFRIC 18 Transfers of Assets from Customers – The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 Revenue.

Improvements to IFRS 'Improvements to IFRS' were issued in April 2009. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2010, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

- Revision of IFRS 5 Non Current Assets Held for Sale and Discontinued Operation – Amendment to clarify that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

- Revision of IFRS 8 Operating Segments – Amendment to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker.

- Revision of IAS 1 Presentation of Financial Statements – Clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- Revision of IAS 7 Statement of Cash Flows – Amendment to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities.

- Revision of IAS 17 Leases – Deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17.

- Revision of IAS 24 Related Party Disclosures – The revision of IAS 24 clarifies the definition of related parties.

- Revision of IAS 36 Impairment of Assets – Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 Operating Segments.

- Revision of IAS 39 Financial Instruments: Recognition and Measurement – Amendments to clarify (i) that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract; (ii) it only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date, the term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction and the exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions; (iii) when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss; (iv) changes in impairment of financial assets as mentioned in the Exposure Draft 2009/12; and (v) changes in the requirements of derecognition of financial assets as mentioned in the Exposure Draft 2009/3.

The Bank does not expect the adoption of the above-mentioned standards and interpretations to have a material effect on the consolidated financial statements taken as a whole, except to IFRS 9, which the Bank is analyzing the impacts from the adoption of this standard.

d) Estimates made

The consolidated results and the determination of consolidated equity are influenced by the accounting policies, assumptions, estimates and measurement bases used by the management of the Bank in preparing the consolidated financial statements. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. The main accounting policies and measurement bases are set forth in Note 2.

In the consolidated financial statements estimates were occasionally made by the senior executives of the Bank and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- Fair value measurement of certain financial instruments

The fair value of a financial instrument is the value at which it could be bought or sold in a current transaction between knowledgeable, willing parties on an arm's length basis. If a quoted price in an active market is available for an instrument, the fair value is calculated based on that price.

If there is no market price available for a financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving the same or similar instruments and, in the absence thereof, on the basis of valuation techniques, using valuation techniques commonly used by the financial markets as follows:

- The present value method for valuing financial instruments permitting static hedging (principally, forwards and swaps) and loans and advances. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are observable market data.

- The Black-Scholes model for valuing financial instruments requiring dynamic hedging (principally structured options and other structured instruments). Certain observable market inputs are used in the Black-Scholes model to generate variables such as the bid-offer spread, exchange rates, volatility, correlation between indexes and market liquidity, as appropriate.

- Each of the present value method and Black-Scholes models is used for valuing financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors.

- The Bank uses dynamic models similar to those used in the measurement of interest rate risk for measuring credit risk of linear instruments (such as bonds and fixed-income derivatives.

The methodology used for fair value measurements of certain financial instruments is further described in note 2.d.

- The allowance for loan losses

The Bank cover losses inherent in debt instruments not measured at fair value taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods that have not yet been allocated to specific transactions.

The Bank uses the concept of incurred loss to quantify the cost of the credit, using statistical models that consider the following three factors: "exposure at default", "probability of default" and "loss given default", as further discussed in note 2.g.

- The impairment losses on certain assets other than loans (including goodwill and other intangible assets)

Certain assets, including goodwill, other intangible assets and equity method investments are subject to impairment review. We record impairment charges when we believe there is objective evidence of impairment, or that the cost of the assets may not be recoverable. Assessment of what constitutes impairment is a matter of significant judgment.

- Tangible assets are further discussed in note 2.k,

- Intangible assets are further discussed in note 2.m

- Other assets are further discussed in note 2.n

- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations;

The Bank provides pension plans in the form of both defined contribution plans and defined benefit plans, in accordance with IAS 19.

The actuarial valuation is dependent upon a series of assumptions; the principal ones being:

- assumed interest rates;

- mortality tables;

- annual social security pension revision rate;

- price inflation;

- annual salary growth rate, and

- the method used to calculate vested commitments to current employees.

Post-employment benefits are further discussed in note 2.u.

- The recognition and measurement of deferred tax items.

As discussed in note 2.x, deferred tax assets are only recognized for temporary differences to the extent that it is considered probable that the combined entities will have sufficient future taxable profits against which the deferred tax assets can be utilized. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognized if it is considered probable that the combined entities will have sufficient future taxable profits against which they can be utilized. In accordance with the current regulation, the expected realization of the Banks' tax credits, is based on the projection of future income and technical studies.

These estimates are based on current expectations and estimates on projections of future events and trends, which may affect the consolidated financial statements. The principal assumptions that may affect these estimates, in addition to those previously mentioned above, relate to the following factors:

- Changes in deposit amounts, customer basis and defaults by borrowers
- Changes in interest rates
- Changes in inflation rates
- Government regulation and tax matters,
- Adverse legal or regulatory disputes or proceedings,
- Credit, market and other risks of lending and investment activities,
- Changes in market values of Brazilian securities, particularly Brazilian government securities,
- Changes in regional, national and international business and economic conditions

e) Capital management

The Bank's capital management is performed at regulatory and economic levels.

Regulatory capital management is based on the analysis of the capital base and the capital ratios using the criteria of Brazilian Central Bank. The aim is to achieve a capital structure that is as efficient as possible in terms of both cost and compliance with the requirements of regulators, ratings agencies and investors. Active capital management includes securitizations, sales of assets, preference and subordinated issues of equity instruments and hybrid instruments.

From an economic standpoint, capital management seeks to optimize value creation at the Bank and at its different business segment. To this end, the economic capital, RORAC (return on risk-adjusted capital) and value creation data for each business segment are generated, analyzed and reported to the management committee on a quarterly basis. Within the framework of the internal capital adequacy assessment process (Pillar 2 of the Basel Capital Accord), the Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in different economic scenarios, with the solvency levels agreed upon by the Group.

In order to adequately manage the Bank's capital, it is essential to estimate and analyze future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based in financial projectinos (balance sheet, income statement, etc.) and on macroeconomic scenarios estimated by the Economic Research Service. These estimates are used by the Bank as a reference to plan the management actions (issues, securitizations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables, GDP, interest rates, stock market indexes, etc. that mirror historical crises that could happen again.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the consolidated financial statements were as follows:

a) Foreign currency transactions

The individual financial statements of each entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Brazilian Reais, the functional currency of the Bank and the presentation currency for the consolidated financial statements. The assets and liabilities that are monetary items are converted by exchange rates at the end of the period, the non-monetary items are stated at historical cost in foreign exchange rates at the date of such transactions and the income statement balances is converted by the average exchange rates for the period.

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognized at their net amount under "Exchange differences" in the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognized in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognized under "Valuation adjustments – Exchange differences".

b) Basis of consolidation

i. Subsidiaries

"Subsidiaries" are defined as entities over which the Bank has the capacity to exercise control; this capacity is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower, when as in the case of agreements with shareholders of the investee, the Bank is granted control. Control is the power to govern the financial and operating policies of an entity, as stipulated by the law, the Bylaws or agreement, so as to obtain benefits from its activities.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and transactions between consolidated entities are eliminated on consolidation.

On acquisition of a subsidiary, its assets, liabilities and contingent liabilities are recognized at fair value at the date of acquisition. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognized as goodwill (note 13). Negative differences are charged to income on the date of acquisition.

Additionally, the share of third parties of the Bank's equity is presented under "Minority interests" in the consolidated balance sheet (note 24). Their share of the profit for the year is presented under "Profit attributable to minority interests" in the consolidated income statement. Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Bank's interests and the minority interests are adjusted to reflect the changes in their relative interests in the subsidiary.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

The Appendix I contains significant information on these entities.

ii. Interests in joint ventures (jointly controlled entities) and associates

"Joint ventures" are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities ("ventures") acquire interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control, usually because it holds 20% or more of the voting power of the investee.

In the consolidated financial statements, interest in joint ventures and investments in associates are accounted for using the equity method, i.e. at the Bank's share of net assets of the investee, after taking into account the dividends received there from and other equity eliminations. In the case of transactions with an associate, the related profits or losses are eliminated to the extent of the Bank's investment in the associate.

iii. Special purpose entities

When the Bank incorporates special purpose entities, or holds ownership interests therein, to enable its customers to access certain investments, or for the transfer of risks or other purposes, it determines, using internal criteria and procedures, and taking into consideration the applicable legislation, whether control (as defined above) exists and, therefore, whether these entities should be consolidated. These criteria and procedures take into account, inter alia, the risks and rewards retained by the Bank and, accordingly, all relevant matters are taken into consideration, including any guarantees granted or any losses associated with the collection of the related assets retained by the Bank. These entities include the securitization special purpose vehicles, which are fully consolidated in the case of the SPVs over which, based on the aforementioned analysis, it is considered that the Bank continues to exercise control.

iv. Business combinations, acquisitions and disposals

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities and is accounted for in accordance with IFRS 3, "Business Combinations".

Business combinations are performed whereby the Bank obtains control over an entity are recognized for accounting purposes as follows:

- The Bank measures the cost of the business combination, defined as the fair value of the assets given, the liabilities incurred and the equity instruments issued, if any.

- The fair values of the assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets which might not have been recognized by the acquiree, are estimated and recognized in the consolidated balance sheet.

- Any positive difference between the net fair value of the assets, liabilities and contingent liabilities of the acquiree and the cost of the business combination is recognized as Goodwill based on future economic benefits.

Appendix I include relevant information on the Bank companies that were consolidated. Similar information regarding companies accounted for under the equity method by the Bank is provided in note 11.

Also, note 3 below includes a description of the most significant transaction carried out in 2008 and 2009.

c) Definitions and classification of financial instruments

i. Definitions

A "financial instrument" is any contract that gives rise to a financial asset of one entity and, simultaneously, to a financial liability or equity instrument of another entity.

An "equity instrument" is any agreement that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A "financial derivative" is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

"Hybrid financial instruments" are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in subsidiaries, jointly controlled entities and associates (note 11).

- Rights and obligations under employee benefit plans (note 21).

ii Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as “Non-current assets held for sale” or they relate to “Cash and balances with the Brazilian Central Bank”, “Hedging derivatives” and “Investments”, which are reported separately.

Financial assets are included for measurement purposes in one of the following categories:

- Financial assets held for trading (at fair value through profit or loss): this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.

- Other financial assets at fair value through profit or loss: this category includes hybrid financial assets not held for trading that are measured entirely at fair value and financial assets not held for trading that are included in this category in order to obtain more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (“accounting mismatches”) that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases, or because a group of financial assets or financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Bank’s key management personnel.

Financial instruments included in this category (and “Other financial liabilities at fair value through profit or loss”) are permanently subject to an integrated and consistent system of measuring, managing and controlling risks and returns that enables all the financial instruments involved to be monitored and identified and allows the effective reduction of risk to be checked. Financial assets may only be included in this category on the date they are acquired or originated.

- Available-for-sale financial assets: this category includes debt instruments not classified as “Held-to-maturity investments”, “Loans and receivables” or “Financial assets at fair value through profit or loss”, and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as “Financial assets held for trading” or as “Other financial assets at fair value through profit or loss”.

Available-for-sale financial assets are stated at fair value. This category includes debt instruments not classified as “Held-to-maturity investments”, “Loans and receivables” or “Financial assets at fair value through profit or loss”, and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as “Financial assets held for trading” or as “Other financial assets at fair value through profit or loss”. Gains and losses arising from changes in fair value are recognised in “Equity” in the line item “Valuation Adjustment” with the exception of impairment losses, which are recognised in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in “Equity – Valuation Adjustments” is reclassified to profit or loss.

- Loans and receivables: this category includes financing granted to third parties, based on their nature, irrespective of the type of borrower and the form of financing, including finance lease transactions in which the consolidated entities act as lessors. The consolidated entities generally intend to hold the loans and credits granted by them until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortized cost (which includes the required adjustments to reflect estimated impairment losses).
- Held-to-maturity investments: this category includes debt instruments traded in an active market, with fixed maturity and with fixed or determinable payments, for which the Bank has both the

intention and proven ability to hold to maturity. These investments are measured at amortised cost less any impairment, with revenue recognised on an effective yield basis.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the consolidated balance sheet:

- Cash and balances with the Brazilian Central Bank: cash balances and balances receivable on demand relating to deposits with the Brazilian Central Bank.

- Loans and advances: includes the balance of loans granted by the Bank, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favor of the Bank, such as checks drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organized markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originated in banking transactions and services, such as the collection of rentals and similar items:

    - Loans and advances to credit institutions: credit of any nature in the name of credit institutions.

    - Loans and advances to customers: includes the debit balances of all the remaining credit and loans granted by the Bank, other than those represented by securities, including money market operations through central counterparties.

- Debt instruments: bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- Equity instruments: financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, unless they are investments in subsidiaries, jointly controlled entities or associates. Investment fund units are included in this item.

- Trading derivatives: includes the fair value in favor of the Bank of derivatives which do not form part of hedge accounting.

- Hedging derivatives: includes the fair value in favor of the Bank of derivatives designated as hedging instruments in hedge accounting.

- Investments in associates: includes the investments in the share capital of associates.

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): this category includes the financial liabilities issued for the purpose of generating a profit in the short term from fluctuations in their prices, financial derivatives not considered to qualify for hedge accounting and financial liabilities arising from the outright sale of financial assets purchased under resale agreements or borrowed (“short positions”).

- Other financial liabilities at fair value through profit or loss: financial liabilities are included in this category when more relevant information is obtained, either because this eliminates or significantly reduces recognition or measurement inconsistencies (“accounting mismatches”) that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided on that basis to the Bank’s key management personnel.

- Financial liabilities at amortized cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the funding-taking activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet:

- Deposits from the Brazilian Central Bank: deposits of any nature received from the Brazilian Central Bank.

- Deposits from credit institutions: deposits of any nature, including credit and money market operations received in the name of credit institutions.

- Customer deposits: includes all repayable balances received in cash by the Bank, other than those represented by marketable securities, money market operations through central counterparties, subordinated liabilities and deposits from the Brazilian Central Bank and credit institutions.

- Marketable debt securities: includes the amount of bonds and other debt represented by marketable securities, other than subordinated liabilities.

- Trading derivatives: includes the fair value, with a negative balance for the Bank, of derivatives which do not form part of hedge accounting.

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets purchased under reverse repurchase agreements or borrowed.

- Subordinated liabilities: amount of financing received which, for the purposes of payment priority, ranks behind ordinary debt. This category also includes the financial instruments issued by the Bank which, although equity for legal purposes, do not meet the requirements for classification as equity.

- Other financial liabilities: includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as doubtful.

- Hedging derivatives: includes the fair value of the Bank’s liability in respect of derivatives designated as hedging instruments in hedge accounting.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognized at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss are, adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each period-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their disposal, except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

The "fair value" of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

All derivatives are recognized in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognized as an asset and if the fair value is negative, they are recognized as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognized in "Gains/losses on financial assets and liabilities" in the consolidated income statement. Specifically, the fair value of standard financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure over the counter "OTC" derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets: "net present value" (NPV), option pricing models and other methods.

"Loans and receivables" and "Held-to-maturity investments" are measured at amortized cost using the effective interest method. "Amortized cost" is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and the cumulative amortization (taken to the income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortized cost furthermore includes any reductions for impairment or uncollectibility. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognized.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The “effective interest rate” is the discount rate that exactly matches the initial amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recognized represent, in all material respects, the Bank’s maximum exposure to credit risk at each reporting date. Also, the Bank has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under leasing and renting agreements, assets acquired under repurchase agreements, securities loans and derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortized cost, as defined above, except for those included under “Financial liabilities held for trading” and “Other financial liabilities at fair value through profit or loss” and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at 2009 and 2008 year-end, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Bank to determine their fair value:

	2009			2008		
	Published Price Quotations in Active Markets	Internal Models	Total	Published Price Quotations in Active Markets	Internal Models	Total
			(Thousands of *Reais*)			
Financial assets held for trading	2,544,441	17,571,211	20,115,652	959,609	19,026,391	19,986,000
Other financial assets at fair value through profit or loss	13,787,109	2,507,351	16,294,460	–	5,574,961	5,574,961
Available-for-sale financial assets	1,633,945	44,772,175	46,406,120	1,145,483	29,590,198	30,735,681
Hedging derivatives (assets)	–	163,425	163,425	–	106,321	106,321
Financial liabilities held for trading	33,025	4,401,709	4,434,734	45,781	11,163,819	11,209,600
Other financial liabilities at fair value through profit or loss	–	1,795	1,795	–	307,376	307,376
Hedging derivatives (liabilities)	–	9,806	9,806	–	264,771	264,771

Financial instruments at fair value, determined on the basis of public price quotations in active markets (Level 1), include government debt securities, private-sector debt securities, securitized assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set using its own internal models. In most cases, these models use data based on observable market parameters as significant inputs (Level 2). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data and extrapolation techniques. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

There were no reclassifications between the level 1 and level 2 in the exercise ended on December 31, 2009 and 2008.

On December 31, 2009 and 2008 the Bank did not have any financial instrument classified as Level 3.

The main techniques used at December 31, 2009 by the Bank's internal models to determine the fair value of the financial instruments detailed in the foregoing table are as follows:

- In the valuation of financial instruments permitting static hedging (basically forwards and swaps) and in the valuation of loans and advances to customers, the "present value" method is used. Estimated future cash flows are discounted using the interest rate curves of the related currencies. The interest rate curves are generally observable market data.

- In the valuation of financial instruments requiring dynamic hedging (basically structured options and other structured instruments), the Black-Scholes model is normally used. Where appropriate, observable market inputs are used to obtain factors such as the bid-offer spread, exchange rates, volatility, correlation between indexes and market liquidity.

- In the valuation of certain financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors, the present value method (futures) and the Black-Scholes model (plain vanilla options) are used. The main inputs used in these models are basically observable market data, including the related interest rate curves, volatilities, correlations and exchange rates.

- In the case of linear instruments (e.g. credit risk and fixed-income derivatives), credit risk is measured using dynamic models similar to those used in the measurement of interest rate risk. In the case of non-linear instruments, if the portfolio is exposed to credit risk (e.g. credit derivatives), the joint probability of default is determined using the Standard Gaussian Copula model. The main inputs used to determine the underlying cost of credit of credit derivatives are quoted credit risk premiums and the correlation between the quoted credit derivatives of various issuers.

The fair value of the financial instruments arising from the aforementioned internal models takes into account, inter alia, the contract terms and observable market data, which include interest rates, credit risk, exchange rates, the quoted market price of raw materials and shares, volatility and prepayments. The valuation models are not significantly subjective, since these methodologies can be adjusted and gauged, as appropriate, through the internal calculation of fair value and the subsequent comparison with the related actively traded price.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Level 2) at December 31, 2009:

	Fair Values Calculated Using Internal Models	Valuation Techniques	Main Assumptions
ASSETS:			
Financial assets held for trading	**17,571,211**		
Loans and advances to credit institutions	67,170	Present Value Method	Observable market data (interest and discount rates)
Debt and equity instruments	12,554,035	Present Value Method	Observable market data (interest and discount rates)
Trading derivatives	4,950,006		
Swaps	3,998,734	Present Value Method	Observable market data, liquidity (interest and exchange rates)
Exchange rate options	288,080	Black-Scholes Model	Observable market data, liquidity (exchange rates)
Interest rate options	293,198	Black-Scholes Model	Observable market data, liquidity, correlation (interest rates)
Exchange rate futures	342,681	Present Value Method	Observable market data, liquidity (exchange rates)
Stock options	27,313	Black-Scholes Model	Observable market data, liquidity, correlation (shares and ratios)
Hedging derivatives	**163,425**		
Swaps	163,425	Present Value Method	Observable market data (interest rates)
Other financial assets at fair value through profit or loss	**2,507,351**		
Loans and advances to credit institutions	1,907,265	Present Value Method	Observable market data (interest and discount rates)
Loans and advances to customers	389,113	Present Value Method	Observable market data (interest and discount rates)
Debt and equity interests	210,973	Present Value Method	Observable market data (interest and discount rates)
Available-for-sale financial assets	**44,772,175**		
Debt and equity instruments	44,772,175	Present Value Method	Observable market data (interest and discount rates)
LIABILITIES:			
Financial liabilities held for trading	**4,401,709**		
Trading derivatives	4,401,709		
Swaps	3,076,202	Present Value Method	Observable market data, liquidity (interest and exchange rates)
Exchange rate options	450,836	Black-Scholes Model	Observable market data, liquidity (exchange rates)
Interest rate options	251,618	Black-Scholes Model	Observable market data, liquidity, correlation (interest rates)
Interest rate and investment futures	589,780	Present Value Method	Observable market data (interest rates)
Stock options	33,273	Black-Scholes Model	Observable market data, liquidity, correlation (shares and ratios)
Hedging derivatives	**9,806**		
Swaps	9,806	Present Value Method	Observable market data (interest and exchange rates)
Other financial liabilities at fair value through profit or loss	**1,795**	Present Value Method	Observable market data (interest and discount rates)

The use of observable market data assumes that the markets in which the Bank operates are functioning efficiently and, therefore, that these data are representative. The main assumptions used in the measurement of the financial instruments included in the foregoing table that were valued by means of internal models employing unobservable market data are as follows:

- Correlation: the assumptions relating to the correlation between the value of quoted and unquoted assets are based on historical correlations between the impact of adverse changes in market variables and the corresponding valuation of the associated unquoted assets. The measurement of the assets will vary depending on whether a more or less conservative scenario is selected.

- Dividends: the estimates of the dividends used as inputs in the internal models are based on the expected dividend payments of the issuers. Since the dividend expectations can change or vary depending on the source of the price (normally historical data or market consensus for the measurement of options) and the companies' dividend policies can vary, the valuation is adjusted to the best estimate of the reasonable dividend level expected in more or less conservative scenarios.

- Liquidity: the assumptions include estimates in response to market liquidity. For example, they take market liquidity into consideration when very long-term estimates of exchange rates or interest rates are used, or when the instrument is part of a new or developing market where, due to the absence of market prices that reflect a reasonable price for these products, the standard valuation methods and the estimates available might give rise to less precise results in the measurement of these instruments at that time.

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognized in the consolidated income statement, distinguishing between those arising from the accrual of interest and similar items -which are recognized under "Interest and similar income" or "Interest expense and similar charges", as appropriate- and those arising for other reasons, which are recognized at their net amount under "Gains/losses on financial assets and liabilities".

Adjustments due to changes in fair value arising from Available-for-sale financial assets are recognized temporarily in equity under "Valuation adjustments – Available-for-sale financial assets". Items charged or credited to this account remain in the Bank's consolidated equity until the related assets are derecognized, whereupon they are charged to the consolidated income statement.

v. Hedging transactions

The consolidated entities use financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Bank entities' own positions and assets and liabilities ("hedging derivatives"); and iii) to obtain gains from changes in the prices of these derivatives ("trading derivatives").

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

    a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject ("fair value hedge");

    b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions ("cash flow hedge");

    c. The net investment in a foreign operation ("hedge of a net investment in a foreign operation").

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

    a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective ("prospective effectiveness").

    b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position ("retrospective effectiveness").

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effective hedge was expected to be achieved and measured, provided that this is consistent with the Bank's management of own risks.

The changes in value of financial instruments qualifying for hedge accounting are recognized as follows:

a. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items (attributable to the type of risk being hedged) are recognized directly in the consolidated income statement.

b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognized temporarily in equity under "Valuation adjustments – Cash flow hedges" until the forecast transactions occur, when it is recognized in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability. The ineffective portion of the change in value of hedging derivatives is recognized directly in the consolidated income statement.

c. The ineffective portion of the gains and losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation are recognized directly under "Gains/losses on financial assets and liabilities" in the consolidated income statement.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognized on the hedged item are transferred to profit or loss at the effective interest rate re-calculated at the date of hedge discontinuation. The adjustments must be fully amortized at maturity.

When cash flow hedges are discontinued, any cumulative gain or loss on the hedging instrument recognized in equity under "Valuation adjustments" (from the period when the hedge was effective) remains recognized in equity until the forecast transaction occurs at which time it is recognized in profit or loss, unless the transaction is no longer expected to occur, in which case any cumulative gain or loss is recognized immediately in profit or loss.

e) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

1. If the Bank transfers substantially all the risks and rewards to third parties -unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitization of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognized and any rights or obligations retained or created in the transfer are recognized simultaneously.

2. If the Bank retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognized and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognized:

   a. An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost.

   b. The income from the transferred financial asset not derecognized and any expense incurred on the new financial liability.

3. If the Bank neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases-, the following distinction is made:

   a. If the transferor does not retain control of the transferred financial asset, the asset is derecognized and any rights or obligations retained or created in the transfer are recognized.

   b. If the transferor retains control, it continues to recognize the transferred financial asset for an amount equal to its exposure to changes in value and recognizes a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognized when the rights on the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognized when the obligations they generate have been extinguished or when they are acquired, with the intention either to cancel them or to resell them.

f) Regular way purchases of financial assets

Regular way purchases of financial assets are recognized on trade date. The assets are derecognized when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

g) Impairment of financial assets

i. Definition

A financial asset is considered to be impaired and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

- In the case of equity instruments, mean that their carrying amount cannot be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognized impairment losses is recognized in the consolidated income statement for the period in which the impairment is reversed or reduced.

Balances are deemed to be impaired, and the interest accrual is suspended, when there are reasonable doubts as to their full recovery and/or the collection of the related interest for the amounts and on the dates initially agreed upon, after taking into account the guarantees received by the consolidated entities to secure (fully or partially) collection of the related balances. Collections relating to impaired loans and advances are used to recognize the accrued interest and the remainder, if any, to reduce the principal amount outstanding. The amount of the financial assets that would be deemed to be impaired had the conditions thereof not been renegotiated is not material with respect to the Bank's financial statements taken as a whole.

When the recovery of any recognized amount is considered unlikely, the amount is written off, without prejudice to any actions that the consolidated entities may initiate to seek collection until their contractual rights are extinguished.

ii. Debt instruments carried at amortized cost

The amount of an impairment loss incurred on a debt instrument measured at amortized cost is equal to the difference between its carrying amount and the present value of its estimated future cash flows, and is presented as a reduction of the balance of the asset adjusted.

In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument; including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The impairment loss takes into account the likelihood of collecting accrued interest receivable.

- The various types of risk to which each instrument is subject, and

- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

Specifically in regards to impairment losses resulting from materialization of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency when there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons.

The Bank has certain policies, methods and procedures for covering its credit risk arising both from insolvency allocable to counterparties.

These policies, methods and procedures are applied in the granting, examination and documentation of debt instruments, and contingent liabilities and commitments, the identification of their impairment and the calculation of the amounts necessary to cover the related credit risk.

With respect to the allowance for loss arising from credit risk, the Bank makes the following distinction:

a. Specific allowance:

The Bank uses a proxy for specific allowance, as further explained below. These rules are used to calculate the minimum allowance requirements.

The Bank evaluate the need for further provision, as considered necessary, following the requirements of IAS 39, based on our historical experience of impairment and other circumstances known at the time of assessment.

The Bank classifies our credit transactions according to their level of risk and the number of days such transaction is past due. Such credit classifications are determined in accordance with:

- The conditions of the debtor and any guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, administration, corporate governance and quality of internal controls, payments history, the sector in which they are active, contingencies and credit limits; and

- The characteristics of the transaction, such as its nature and purpose, type, sufficiency and level of liquidity of collateral and the total amount of the credit.

The rating and risk management systems used by the Bank may be reviewed by both the Central Bank and the Santander Group's internal auditors. The Bank's management has not had any disputes with the Central Bank or the Santander Group regarding our risk management operations.

b. Allowance for incurred losses not specifically identified:

The Bank covers its losses inherent in debt instruments not measured at fair value through profit or loss and in contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods that have not yet been allocated to specific transactions.

The Bank uses the concept of incurred loss to quantify the cost of the credit risk and include it in the calculation of the risk-adjusted return of its transactions.

The incurred loss is the expected cost of the credit risk of a transaction, that will manifest itself within a one year (business cycle) lead time from the balance sheet date considering the characteristics of the counterparty and the guarantees and collateral associated with the transaction.

The loss is calculated by using statistical models that consider the following three factors: “exposure at default”, “probability of default” and “loss given default”.

- Exposure at default (EAD) is the amount of risk Exposure at the date of default by the counterparty.

In accordance with IFRS, the exposure at default used for this calculation is the current exposure, as reported in the balance sheet.

- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The probability of default is associated with the rating/scoring of each counterparty/transaction.

PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year. The definition of default used includes past-dues by 90 days or more and cases in which there is no default but there are doubts as to the solvency of the counterparty (subjective doubtful assets).

- Loss given default (LGD) is the loss arising in the event of default.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account the guarantees/collateral associated with the transaction, the income and expenses associated with the recovery process, and also the timing thereof and the indirect costs arising from the recovery process.

This parameter does not consider downturn adjustments.

The methodology used by the Bank for determining the loans allowance for incurred losses not specifically identified intends to identify the amount of incurred losses as of the balance sheet date of loans that have not yet been identified as impaired, but it is estimate based on our past history and specific facts that will manifest within a one year lead time period from the balance sheet date. The above demonstrates those loans were having problems as of the balance sheet date. That is, what the Bank calls inherent losses in the context of our internal models in which loan loss allowances are calculated.

The approach described above is used as a general rule. However, in certain cases, as a result of its particular characteristics, this approach is not applied and alternative approaches are used:

1. Low default portfolios.

In certain portfolios (credit institutions or large corporations) the number of defaults observed is very small or zero. In these cases, the Bank opted to use the data contained in the credit derivative spreads to estimate the incurred loss discounted by the market and break it down into PD and LGD.

2. Top-down units.

In the exceptional cases in which the Bank does not have sufficient data to construct a sufficiently robust credit risk measurement model, the incurred loss on the loan portfolios is estimated based on a top-down approximation in which the historically observed average cost of the loan portfolios is used as the best estimate of the incurred loss. As the credit models are developed and bottom-up measurements are obtained, the top-down measurements used for these units are gradually replaced.

iii. Debt or equity instruments classified as available for sale

The amount of the impairment losses on these instruments is the positive difference between their acquisition cost (net of any principal repayment or amortization in the case of debt instruments) and their fair value, less any impairment loss previously recognized in the consolidated income statement.

When there is objective evidence at the date of measurement of these instruments that the aforementioned differences are due to permanent impairment, they are no longer recognized in equity under "Valuation adjustments – Available-for-sale financial assets" and are reclassified, for the cumulative amount at that date, to the consolidated income statement.

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognized, in the case of debt instruments, in the consolidated income statement for the year in which the reversal occurred (or in equity "Valuation adjustments – Available-for-sale financial assets" in the case of equity instruments).

iv Equity instruments measured at cost

The impairment loss on equity instruments measured at cost is the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognized in the consolidated financial income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if related assets are sold.

h) Repurchase agreements

Purchases (sales) of financial assets under a non-optional resale (repurchase) agreement at a fixed price ("repos") are recognized in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under "Balances with the Brazilian Central Bank", "Loans and advances to credit institutions" or "Loans and advances to customers" ("Deposits from the Brazilian Central Bank", "Deposits from credit institutions" or "Customer deposits").

Differences between the purchase and sale prices are recognized as interest over the contract term.

i) Non-current assets held for sale

"Non-current assets held for sale" includes the carrying amount of individual items or disposal groups or items forming part of a business unit earmarked for disposal ("Discontinued operations"), whose sale in their present condition is highly probable and is expected to occur within one year from the reporting date. Therefore, the carrying amount of these items, which can be of a financial nature or otherwise, will foreseeably be recovered through the proceeds from their disposal. Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them are deemed to be non-current assets held for sale through the completion of actions which normally occurs up to one year.

Non-current assets held for sale are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognized under "Gains/ (losses) on non-current assets held for sale not classified as discontinued operations" in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognized in the consolidated income statement up to an amount equal to the impairment losses previously recognized.

j) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheets and the average interest rates at 2009 and 2008 year-end is provided in note 41-d.

k) Tangible assets

"Tangible assets" includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities, including tangible assets received by the Bank in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases are presented at acquisition cost, less the related accumulated depreciation and any impairment losses (net carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The tangible asset depreciation charge is recognized in the consolidated income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Buildings for own use	4%
Furniture	10%
Fixtures	10%
Office and IT equipment	20%
Leasehold improvements	10% or up to contractual maturity

The consolidated entities assess at the reporting date whether there is an indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated entities recognize the reversal of the impairment loss recognized in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognized in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognized in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense in the period in which they are incurred.

l) Accounting for leases

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated entities act as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee plus the guaranteed residual value which is generally the exercise price of the purchase option of the lessee at the end of the lease term is recognized as lending to third parties and is therefore included under "Loans and receivables" in the consolidated balance sheet.

The finance income arising from these contracts is credited to "Interest and similar income" in the consolidated income statement so as to achieve a constant rate of return over the lease term.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under "Tangible assets" (note 12). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use and income from operating leases is recognized on a straight-line basis under "Other operating income" in the consolidated income statement.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to "Other general administrative expenses" in their consolidated income statements.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated entities. Only assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognized.

Intangible assets are recognized initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortization and any accumulated impairment losses.

i. Goodwill

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3, Business Combinations. Therefore:

(a) goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor's share of the associate's profits or losses.

(b) any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Goodwill – which is only recognized when it has been acquired for consideration – represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognized.

At the end of each reporting period or when there is any indication of impairment, goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and any impairment is written down with a charge to "Impairment losses on other assets (net) – Goodwill and other intangible assets" in the consolidated income statement.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

"Other intangible assets" includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

Other intangible assets can have an indefinite useful life, when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities, or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortized, but rather at the end of each reporting period the consolidated entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortized over those useful lives using methods similar to those used to depreciate tangible assets.

The intangible asset amortization charge is recognized under "Depreciation and amortization" in the consolidated income statement.

In both cases the consolidated entities recognize any impairment loss on the carrying amount of these assets with a charge to "Impairment losses on goodwill and other intangible assets" in the consolidated income statement. The criteria used to recognize the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for tangible assets (see note 2-k).

Internally developed computer software is recognized as an intangible asset if, among other requisites (basically the Bank's ability to use or sell it), can be identified and its ability to generate future economic benefits can be demonstrated. Expenditure on research activities is recognized as an expense in the year.

n) Other assets

It includes the balance of all prepayments and accrued income (excluding accrued interest), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity's favor, when this net amount is to be reported in the consolidated balance sheet, and the amount of any other assets not included in other items.

o) Other liabilities

"Other liabilities" includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

p) Provisions and contingent assets and liabilities

The directors of the consolidated entities, in preparing their respective financial statements, made a distinction between:

- Provisions: credit balances covering present obligations (legal or constructive) at the balance sheet date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be probable to occur and a reliable estimate can be made of the amount of the obligation.

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities. They include the present obligations of the consolidated entities when it is not probable that an outflow of resources embodying economic benefits will be required to settle them.

- Contingent assets: possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of events beyond the control of the Bank. Contingent assets are not recognized in the consolidated balance sheet or in the consolidated income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Bank's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognized in the consolidated financial statements, but must rather be disclosed in the notes.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognized. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows:

- Provisions for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to early retirees and similar obligations.

- Provisions for contingent liabilities, commitments and provisions for taxes and other legal contingencies and other provisions: include the amount of the provisions recognized to cover tax and legal contingencies and labor and civil litigation and the other provisions recognized by the consolidated entities.

q) Equity-instrument-based employee remuneration

Equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognized as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Bank recognizes in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognized in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognized in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

r) Recognition of income and expenses

The most significant criteria used by the Bank to recognize its income and expenses are summarized as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognized on an accrual basis using the effective interest method. Dividends received from other companies are recognized as income when the consolidated entities' right to receive them arises.

However, the recognition of accrued interest in the consolidated income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than two months past due. This interest is recognized as income, when collected, as a reversal of the related impairment losses.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognized in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognized when paid;
- Those arising from transactions or services that are performed over a period of time are recognized over the life of these transactions or services; and
- Those relating to services provided in a single act are recognized when the single act has been performed.

iii. Non-finance income and expenses

These are recognized for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognized for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination and application fees, are accrued and recognized in income over the term of the loan. In the case of loan origination fees, the portion relating to the associated direct costs incurred in the loan arrangement is recognized immediately in the consolidated income statement.

s) Financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the entity, etc.

The Bank initially recognizes the financial guarantees provided on the liability side of the consolidated balance sheet at fair value, which is generally the present value of the fees, commissions and similar interest receivable from these contracts over the term thereof, and simultaneously the Bank recognizes, on the asset side of the consolidated balance sheet, the amount of the fees, commissions and interest received at the start of the transactions and the amounts receivable at the present value of the fees, commissions and interest receivable.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments measured at amortized cost.

The provisions made for these transactions are recognized under "Provisions – Provisions for contingent liabilities and commitments" in the consolidated balance sheet (note 21).

If a specific provision is required for financial guarantees, the related unearned commissions recognized under "Financial liabilities at amortized cost – Other financial liabilities" in the consolidated balance sheet are reclassified to the appropriate provision.

t) Assets under management and investment and pension funds managed by the Bank

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in "Fee and commission income" in the consolidated income statement. Note 41-b contains information on the third-party assets managed by the Bank.

The investment funds and pension funds managed by the consolidated entities are not presented on the face of the Bank's consolidated balance sheet since the related assets are owned by third parties. The fees and commissions earned in the year for the services rendered by the Bank entities to these funds (asset management and custody services) are recognized under "Fee and commission income" in the consolidated income statement.

u) Post-employment benefits

The bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, the benefits and indemnity payments payable, the contributions to employee welfare systems for early retirees and the post-employment welfare benefits.

The Bank's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Bank makes pre-determined contributions (recognized in "Personnel expenses" in the consolidated income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as "defined benefit plans" (note 21).

Defined contribution plans

The contributions made in this connection in each year are recognized under "Personnel expenses" in the consolidated income statement. The amounts not yet contributed at each year-end are recognized, at their present value, under "Provisions – Provisions for pensions and similar obligations" on the liability side of the consolidated balance sheet.

Defined benefit plans

The Bank recognizes under "Provisions – Provisions for pensions and similar obligations" on the liability side of the consolidated balance sheet (or under "Other assets" on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets and of the net unrecognized cumulative actuarial gains and/or losses disclosed in the valuation of these obligations, which are deferred using a corridor approach, and net of the past service cost, which is deferred over time, as explained below.

"Plan assets" are defined as those that will be directly used to settle obligations and that meet the following conditions:

- They are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Bank.

- They can only be used to pay or finance post-employment benefits and cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all obligations of the plan and of the entity relating to current or former employee benefits, or to reimburse employee benefits already paid by the Bank.

"Actuarial gains and losses" are defined as those arising from differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions. The Bank uses, on a plan-by-plan basis, the corridor method and recognizes in the consolidated income statement the amount resulting from dividing by five the net amount of the cumulative actuarial gains and/or losses not recognized at the beginning of each year which exceeds 10% of the present value of the obligations or 10% of the fair value of the plan assets at the beginning of the year, whichever amount is higher.

The "past service cost", which arises from changes to current post-employment benefits or from the introduction of new benefits, is recognized on a straight-line basis in the consolidated income statement over the period from the time the new commitments arise to the date on which the employee has an irrevocable right to receive the new benefits.

Post-employment benefits are recognized in the consolidated income statement as follows:

- Current service cost, defined as the increase in the present value of the obligations resulting from employee service in the current period, under "Personnel expenses".

- Interest cost, defined as the increase during the year in the present value of the obligations as a result of the passage of time, under "Interest expense and similar charges". When obligations are presented on the liability side of the consolidated balance sheet, net of the plan assets, the cost of the liabilities recognized in the income statement relates exclusively to the obligations recognized as liabilities.

- The expected return on plan assets and the gains or losses on the value of the plan assets under "Interest and similar income".

- The actuarial gains and losses calculated using the corridor approach and the unrecognized past service cost, under "Provisions (net)" in the consolidated income statement.

v) Other long-term employee benefits

"Other long-term employee benefits", defined as obligations to early retirees taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that all past service costs and actuarial gains and losses are recognized immediately (note 21).

w) Termination benefits

Termination benefits are recognized when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

x) Income taxes

Income tax is calculated at the rate of 15% plus a 10% surtax; social contribution tax is calculated at the rate of 15% (9% in 2007 and the period from January 1st to April 30, 2008) for financial institutions, and for non-financial companies the social contribution tax rate is 9%, after adjustments determined by tax legislation.

In accordance with the current regulation, the expected realization of the Bank's tax credits, as shown in note 23, is based on the projection of future income and a technical study.

The expense for corporation income tax is recognized in the consolidated income statement, except when it results from a transaction recognized directly in equity, in which case the tax effect is also recognized in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognized in the consolidated income statement.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled.

"Tax assets" includes the amount of all tax assets, which are broken down into "current" amounts of tax to be recovered within the next twelve months and "deferred" amounts of tax to be recovered in future years, including those arising from unused tax losses or tax credits.

"Tax liabilities" includes the amount of all tax liabilities (except provisions for taxes), which are broken down into "current" the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months and "deferred" the amount of income tax payable in future years.

Deferred tax liabilities are recognized in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Bank is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognized for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilized, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit or accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognized if it is considered probable that the consolidated entities will have sufficient future taxable profits against which they can be utilized.

Income and expenses recognized directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities recognized are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.PIS and COFINS taxes have been computed at a combined rate of 4.65% on certain gross revenues and expenses. Financial institutions may deduct financial expenses in determining the PIS/COFINS tax basis. PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses), therefore and accordingly to IAS 12 it is recorded as income taxes.

y) Consolidated cash flow statements

The following terms are used in the consolidated cash flow statements with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

In preparing the consolidated cash flow statement, short-term highly liquid investments that are subject to an insignificant risk of changes in value were classified as "Cash and cash equivalents". Accordingly, the Bank classifies as cash and cash equivalents the balances recognized under "Cash and balances with the Brazilian Central Bank" in the consolidated balance sheet.

z) Liabilities for insurance contracts

The liabilities for insurance contracts are comprised substantially by mathematical reserves for current and future benefits (PMBaC and PMBC). Insurance contracts are contracts under which the Bank accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which the policyholder will be adversely affected.

Insurance liabilities are recognized when the contract is entered into and the premiums are charged. Contracts that have been classified as insurance are not reclassified subsequently. The liability is derecognized when the contract expires or is cancelled.

Mathematical reserves for current and future benefits are recognized based on contributions made under the capitalization financial system. The mathematical reserves for current benefits represent commitments under continued income plans which are recognized through actuarial calculation for the traditional, pension plan (PGBL) and cash value life insurance (VGBL) plans.

All valuation methods used by the subsidiaries are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts. Investment assumptions are either determined by the local regulator or based on management's future expectations. In the latter case, the anticipated future investment returns are set by management, considering the available market information and economic indicators. A significant assumption related to estimated gross profits on variable annuities, is the annual long-term growth rate of the underlying assets.

At each balance sheet date an assessment is made of whether the provisions for Mathematical reserves are adequate.

3. Change in the scope of consolidation

a) Contribution of Banco Real

On July 24, 2008, Banco Santander Spain took indirect share control of the companies of the ABN AMRO Real Conglomerate in Brazil, after meeting all conditions for this transfer of control, especially the approval of De Nederlandsche Bank (the Central Bank of the Netherlands) and the Bacen.

The Extraordinary Stockholders' Meeting held on August 29, 2008 of Banco Santander, Banco Real and AAB Dois Par approved the corporate restructuring as defined in the Agreement and Plan of Merger of Shares of Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A. into Banco Santander S.A. (Merger Agreement).

The above-mentioned merger agreement established the justifications and conditions for the corporate restructuring consisting of the merger of all shares of Banco Real and AAB Dois Par into Banco Santander (Merger of Shares). As a result of the merger of shares: (a) Banco Real and AAB Dois Par were converted into wholly-owned subsidiaries of Banco Santander; (b) Banco Santander’s capital was increased based on the economic value of the shares of Banco Real and AAB Dois Par from R$9,131,448 thousand to R$47,152,201 thousand and (c) shares were issued by Banco Santander and delivered to the respective stockholders of Banco Real and AAB Dois Par.

The objectives of the operation were: (a) assure the transfer of the businesses acquired by Banco Santander Spain to its subsidiary already established and in operation in Brazil - Banco Santander; (b) assure the preservation of the corporate entity of Banco Santander, Banco Real and AAB Dois Par; (c) concentrate the minority interest in these institutions only in Banco Santander.

The operation allows to rationalize and simplify the equity structure of the companies of the Santander in Brazil will enable the stockholders of Banco Real and AAB Dois Par to become stockholders of a publicly traded company and have access to the current dividend policy of Banco Santander.

This new structure also allows a reduction of administrative costs, especially those related to legal and regulatory requirements.

As this is an operation involving the merger of shares, the legal personality of Banco Real and AAB Dois Par were preserved and any variations subsequent to the date of their balance sheets were properly accounted for in their respective accounting books.

The merger of shares of Real to the Bank was approved by the Brazilian Central Bank (Bacen) in January, 2009.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The following purchase price allocation, accounted for in accordance with IFRS 3, "Business Combinations," reflects the purchase accounting adjustments determined on the date that Santander Spain acquired control of Banco Real since on that date Banco Real came under common control with the Bank. This allocation is explained below:

	Book value	Fair value[(1)]	Adjustment
		(Thousands of *reais*)	
Net assets acquired			
Assets	**132,301,795**	**130,930,255**	**(1,371,540)**
Of which:			
Cash and balances with central banks	12,147,982	12,147,982	–
Debt instruments	21,758,968	21,728,385	(30,583)
Loans and advances to customers	69,669,710	68,039,392	(1,630,318)
Tangible assets	1,072,896	1,344,375	271,479
Liabilities	**(119,436,124)**	**(120,826,655)**	**(1,390,531)**
Of which:			
Deposits from credit institutions	(20,946,768)	(20,932,165)	14,603
Customer deposits	(75,372,552)	(75,419,151)	(46,599)
Subordinated liabilities	(3,440,670)	(3,491,143)	(50,473)
Other financial liabilities	(5,974,858)	(5,852,833)	122,025
Provisions[(4)]	(3,536,049)	(4,968,623)	(1,432,574)
Net assets acquired	**12,865,671**	**10,103,600**	**(2,762,071)**
Intangible assets[(2)]		1,229,716	
Fair value of the assets		**11,333,316**	
Total consideration[(3)]		**38,946,426**	
Satisfied by:			
Shares		38,920,753	
Cash		25,673	
Goodwill		**27,613,110**	

(1) The fair values of the assets and liabilities acquired were determined based on appraisals on October 2008, 29 (date of acquisition) and adjusted on June 30, 2009 as permitted by IFRS. This assets and liabilities were measured based on appraisals of tangible assets, consideration of advice provided by legal counsel for contingent liabilities in Provisions, and discounted cash flow analysis for all other assets and liabilities, taking into consideration the expected future economic benefits of the intangible assets.
(2) Amount relates to customer list with an estimated useful life of 10 years.
(3) Total consideration is based on amounts paid by the Santander Group for the acquisition of Banco Real.
(4) Includes R$124,684 thousand adjustment booked in the six months ended June 30, 2009 respective to a revision in the fair value of provisions, as permitted under IFRS 3.

The incorporation of Banco Real and AAB Dois Par into the Bank resulted in an increase in the Bank's market share and distribution capacity and diversified the Bank's portfolio, resulting in a stronger capital and liquidity position.

If the acquisition had been completed on January 1, 2008, the Bank´s net interest income for the year ended December 31, 2008 would have been R$ 19,292 million (unaudited) and profit would have been R$3,219 million (unaudited).

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

b) Merger of Shares of Santander Seguros S.A. (Santander Seguros), Banco Comercial e de Investimento Sudameris S.A. (BCIS) and Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A. (Santander Brasil Asset)

The Extraordinary Stockholders' Meeting held on August 14, 2009, of Banco Santander, Santander Seguros, BCIS and Santander Brasil Asset approved the corporate restructuring as set out in the Agreement for the "Merger of Santander Seguros S.A., Banco Comercial e de Investimento Sudameris S.A. and Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A. into the equity of Banco Santander (Brasil) S.A." (the merger agreement).

The Merger Agreement establishes the reasons and conditions for the corporate restructuring consisting of the merger of all the shares of Santander Seguros, Banco BCIS and Santander Brasil Asset into the equity of Banco Santander (Share Merger). As a result of the Share Merger, Santander Seguros, Banco BCIS and Santander Brasil Asset (Merged Companies) were transformed into wholly-owned subsidiaries of Banco Santander (Merging Company), under Article 252 of Law 6404/76. The stockholders' equity of Banco Santander was increased in the amount of R$2,471,413 thousand to the corresponding value of the shares of Santander Seguros, the BCIS and Santander Asset Brazil, through the issuance of 14,410,886 shares (7,710,343 shares and 6,700,543 preferred shares), all registered shares with no par value, delivered to the respective shareholders of the Merged Companies.

The mergers were accounted by the Bank using the historical IFRS balance sheet of the merged companies as of June 30, 2009, since such mergers were accounted as a business combination under common control.

Considering the fact that such transaction is a merger of shares, the legal personality of Santander Seguros, Banco BCIS and Santander Brasil Asset were preserved and any variations subsequent to the date of their balance sheets were properly accounted for in their respective accounting books.

Santander Seguros' shares incorporation caused mutual ownership for Banco Santander and Santander Seguros. This united ownership will be eliminated within one year after the of the Extraordinary Stockholders´ meeting which have approved the shares incorporation, as established by the current regulation.

The merger of shares was approved by Bacen on September 28, 2009.

Balance sheets as of June 30, 2009 are presented below. The purpose of this information is to provide the position of impacts on equity related to these acquisitions.

Assets	**17,680,796**
Of which:	
Debt instruments	2,522,657
Equity instruments	13,372,434
Loans and advances to customers	172,190
Tangible assets	4,072
Liabilities	**17,680,796**
Of which:	
Customer deposits	918,682
Liabilities for insurance contracts	13,350,163
Provisions	159,758
Shareholders' equity	2,471,413

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

4. Cash and balances with the Brazilian Central Bank

	2009	2008
	(Thousands of *Reais*)	
Cash and cash equivalents	**18,730,403**	**16,750,870**
Of which:		
Cash	3,630,669	3,218,899
Money market investments(1)	15,099,734	13,531,971
Central bank compulsory deposits(2)	**8,538,609**	**6,949,630**
	27,269,012	**23,700,500**

(1) Federal funds sold and securities purchased under agreements to resell, which are short-term and present insignificant risk of changes in value.
(2) Central bank compulsory deposits relate to a minimum balance financial institutions are required to maintain with the Brazilian Central Bank based on a percentage of deposits received from third parties.

5. Loans and advances to credit institutions

The breakdown, by classification, type and currency, of the balances of "Loans and advances to credit institutions" in the consolidated balance sheets is as follows:

	2009	2008
	(Thousands of *Reais*)	
Classification:		
Financial assets held for trading	67,170	–
Other financial assets at fair value through profit or loss	1,907,265	4,046,898
Loans and receivables	24,228,143	29,691,635
	26,202,578	**33,738,533**
Type:		
Time deposits	9,945,047	10,702,723
Reverse repurchase agreements	6,160,397	4,582,903
Escrow deposits	6,192,292	6,200,677
Foreign currency investments	3,493,254	10,689,007
Other accounts	411,588	1,563,223
	26,202,578	**33,738,533**
Currency:		
Brazilian Real	20,775,625	22,661,621
US dollar	5,086,320	10,764,513
Euro	293,329	228,710
Pound sterling	14,729	13,252
Other currencies	32,725	70,861
Impairment losses	(150)	(424)
	26,202,578	**33,738,533**

Note 41-d contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

6. Debt instruments

The breakdown, by classification, type and currency, of the balances of "Debt instruments" is as follows:

	2009	2008
	(Thousands of *Reais*)	
Classification:		
Financial assets held for trading	12,554,035	10,011,999
Other financial assets at fair value through profit or loss	210,973	93,274
Available-for-sale financial assets	44,745,924	29,491,191
	57,510,932	**39,596,464**
Type:		
Brazilian government securities	54,580,584	37,492,944
Other debt securities	2,960,023	2,132,409
Impairment losses	(29,675)	(28,889)
	57,510,932	**39,596,464**
Currency:		
Brazilian Real	56,782,142	38,965,760
US dollar	392,213	258,310
Euro	366,252	401,283
Impairment losses	(29,675)	(28,889)
	57,510,932	**39,596,464**

At December 31, 2009, debt securities totaling R$2,590,485 thousand (2008 - R$ 3,916,554 thousand) had been assigned to repurchase agreements, R$17,994,443 thousand (2008 - R$ 17,970,817 thousand) to compulsory deposits in Central Bank, R$2,298,561 thousand (2008 - R$ 7,953,041 thousand) to guarantee BM&FBovespa derivative transactions and R$1,044,703 thousand (2008 - R$ 1,370,738 thousand) to escrow deposits and other guarantee.

Note 41-d contains a detail of the residual maturity periods of available-for-sale financial assets and of loans and receivables and of the related average interest rates.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

7. Equity instruments

a) Breakdown

The breakdown, by classification and type, of the balances of "Equity instruments" is as follows:

	2009	2008
	(Thousands of *Reais*)	
Classification:		
Financial assets held for trading	2,544,441	678,993
Other financial assets at fair value through profit or loss	13,787,109	–
Available-for-sale financial assets	1,660,196	1,244,490
	17,991,746	**1,923,483**
Type:		
Shares of Brazilian companies	1,470,918	1,015,603
Shares of foreign companies	67,876	312,402
Investment fund units and shares[(1)]	16,452,952	595,478
	17,991,746	**1,923,483**

(1) In 2009, includes Investment fund units Guarantors of Benefit Plans - PGBL/VGBL, related to the liabilities for insurance contracts, due to the incorporation of Santander Seguros (Nota 3 b.).

b) Changes

The changes in the balance of "Equity instruments – Financial assets held for trading" were as follows:

	2009	2008
	(Thousands of *Reais*)	
Balance at beginning of year	678,993	340,267
Changes in the scope of consolidation (note 3)	1,722,965	301,377
Net additions /disposals	(9,148)	(97,755)
Valuation adjustments	151,631	135,104
Balance at end of year	**2,544,441**	**678,993**

The changes in the balance of "Equity instruments – Other financial assets at fair value through profit or loss" were as follows:

	2009	2008
	(Thousands of *Reais*)	
Balance at beginning of year	–	–
Changes in the scope of consolidation (note 3)	11,257,572	–
Valuation adjustments	2,529,537	–
Balance at end of year	**13,787,109**	–

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The changes in the balance of "Equity instruments – Available-for-sale financial assets" were as follows:

	2009	2008
	(Thousands of *Reais*)	
Balance at beginning of year	1,244,490	2,618,697
Net changes in the scope of consolidation (note 3)	4,526	79,770
Net additions /disposals	192,600	(284,934)
Of which:		
Companhia Energética de São Paulo – CESP	–	(373,670)
Fundos de Investimento em Direitos Creditórios – FIDC	–	(85,246)
Wtorre Empreendimentos Imobiliários S.A.	–	299,091
Visa Inc	(228,138)	–
COLI – Fundo Invest Participações Coliseu	288,383	–
Santelisa Vale Bionergia S.A.	48,598	–
Santelisa Vale S.A. PN	69,526	–
Valuation adjustments	218,580	(1,169,043)
Balance at end of year	**1,660,196**	**1,244,490**

8. Trading derivatives (assets and liabilities) and Short positions

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Bank is as follows (note 41-a):

	2009		2008	
	Debit Balance	Credit Balance	Debit Balance	Credit Balance
	(Thousands of *Reais*)			
Interest rate risk	4,291,939	3,327,827	5,145,948	8,197,517
Foreign currency risk	630,711	1,040,600	4,111,758	2,973,718
Price risk	27,356	33,282	36,449	26,368
Other risks	–	–	853	(335)
	4,950,006	**4,401,709**	**9,295,008**	**11,197,268**

b) Short positions

Short positions for 2009 and 2008 are related to Equity instruments from borrowed securities.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

9. Loans and advances to customers

a) Breakdown

The breakdown, by classification, of the balances of "Loans and advances to customers" in the consolidated balance sheets is as follows:

	2009	2008
	(Thousands of *Reais*)	
Other financial assets at fair value through profit or loss	389,113	1,434,789
Loans and receivables	127,934,811	133,033,471
Of which:		
Loans and receivables at amortized cost	138,005,290	141,214,627
Impairment losses	(10,070,479)	(8,181,156)
Loans and advances to customers, net	**128,323,924**	**134,468,260**
Loans and advances to customers, gross	**138,394,403**	**142,649,416**

Note 41-d contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

There are no loans and advances to customers for material amounts without fixed maturity dates.

b) Detail

Following is a detail, by loan type and status, borrower sector and interest rate formula, of the loans and advances to customers, which reflect the Bank's exposure to credit risk in its core business, gross of impairment losses:

	2009	2008
	(Thousands of *Reais*)	
Loan type and status:		
Commercial credit	429,588	629,177
Secured loans	31,595,312	29,518,688
Reverse repurchase agreements	72,555	5,111
Other term loans	83,662,056	83,328,780
Finance leases	12,534,102	11,836,050
Others	200,906	9,601,146
Impaired assets	9,899,884	7,730,464
	138,394,403	**142,649,416**
Loan borrower sector:		
Commercial, financial and industrial	69,301,774	76,406,755
Real estate-construction	3,828,300	2,469,227
Real estate-mortgage	5,225,957	4,472,602
Installment loans to individuals	47,036,774	46,856,869
Lease financing	13,001,598	12,443,963
	138,394,403	**142,649,416**
Interest rate formula:		
Fixed interest rate	90,663,927	79,074,052
Floating rate	47,730,476	63,575,364
	138,394,403	**142,649,416**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

c) Impairment losses

The changes in the allowances for the impairment losses on the balances of “Loans and receivables - Loans and advances to customers” were as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Balance at beginning of year	**8,181,156**	**2,249,432**	**2,170,380**
Impairment losses charged to income for the year	10,520,390	4,533,301	2,473,689
Of which:			
Commercial, financial and industrial	3,071,839	1,451,583	260,532
Real estate-mortgage	27,531	25,939	6,175
Installment loans to individuals	7,197,954	2,951,494	2,179,544
Lease finance	223,066	104,285	27,438
Inclusion of entities in the Bank in the year	–	4,717,191	–
Of which:			
Commercial, financial and industrial	–	1,987,596	–
Real estate-mortgage	–	48,301	–
Installment loans to individuals	–	2,609,890	–
Lease finance	–	71,404	–
Write-off of impaired balances against recorded impairment allowance	(8,631,067)	(3,318,768)	(2,394,637)
Of which:			
Commercial, financial and industrial	(3,072,849)	(738,611)	(309,529)
Real estate-mortgage	(31,177)	(13,279)	(7,175)
Installment loans to individuals	(5,377,097)	(2,513,112)	(2,027,492)
Lease finance	(149,944)	(53,766)	(50,441)
Balance at end of year	**10,070,479**	**8,181,156**	**2,249,432**
Recoveries of loans previously charged off	**537,509**	**430,656**	**293,846**

Taking into account these amounts and those recognized in “Impairment losses charged to income for the year” in the foregoing table, impairment losses on “Loans and receivables” amounted to R$9,982,881 thousand, R$ 4,102,645 thousand in 2008 and R$2,179,843 thousand in 2007.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

d) Impaired assets

The detail of the changes in the balance of the financial assets classified as “Loans and receivables – loans and advances to customers” and considered to be impaired due to credit risk is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Balance at beginning of year	**7,730,464**	**2,092,787**	**2,009,508**
Net additions	10,800,487	5,035,515	2,477,916
Written-off assets	(8,631,067)	(3,318,768)	(2,394,637)
Increase in scope of consolidation	–	3,920,930	–
Balance at end of year	**9,899,884**	**7,730,464**	**2,092,787**

This amount, after deducting the related allowances, represents the Bank’s best estimate of the fair value of the impaired assets.

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at December 31, 2009 and 2008, classified by age of the oldest past-due amount:

	2009	2008
	(Thousands of *Reais*)	
With no Past-Due Balances or Less than 3 Months Past Due	1,725,651	2,214,111
With Balances Past Due by		
3 to 6 Months	2,813,568	2,259,350
6 to 12 Months	4,818,827	3,048,197
12 to 18 Months	493,371	182,799
18 to 24 Months	30,770	8,515
More than 24 Months	17,697	17,492
Total	**9,899,884**	**7,730,464**

10. Non-current assets held for sale

At December 31, 2009 and December 31, 2008, the total amount of non-current assets held for sale includes foreclosed assets and other tangible assets.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

11. Investments in associates

a) Breakdown

The breakdown, by company, of the balance of "Investments in associates" (see note 2-b) is as follows:

	Participation %		Investments		Results from companies accounted for by the equity method		
	2009	2008	2009	2008	2009	2008	2007
			(Thousands of *Reais*)				
Norchem Holding e Negócios S.A.	21.75%	21.75%	24,056	21,186	2,870	1,899	2,950
Norchem Participações e Consultoria S.A.	50.00%	50.00%	28,918	27,621	1,297	3,046	3,916
Companhia de Crédito, Financiamento e Investimento RCI Brasil	39.64%	39.59%	101,303	82,087	16,720	2,639	–
Companhia de Arrendamento Mercantil RCI Brasil	39.88%	39.88%	189,088	179,072	13,133	4,548	–
Celta Holding S.A.	26.00%	26.00%	65,612	61,468	4,267	30,676	–
ABN AMRO Brasil Dois Participações S.A.(5)	–	–	–	–	126,442	–	–
Real Seguros Vida e Previdência S.A. (current denomination of Real Tókio Marine Vida e Previdência S.A.)(4)....	–	49.99%	– – –	86,980	8,766	14,338	– – –
Diamond Finance Promotora de Vendas(5)...	–	25.50%	–	787	106	564	–
Fonet Brasil S.A.(3)(5)	–	50.99%	–	7,644	(1,324)	(539)	–
Companhia Brasileira de Meios de Pagamento – Visanet(2)(5)	–	14.87%	–	104,409	115,796	50,726	–
Cibrasec – Companhia Brasileira de Securitização(2)..................................	13.64%	13.64%	10,145	9,933	475	(49)	(785)
Tecban – Tecnologia Bancária S.A.(5)....	–	20.68%	–	32,044	531	271	(197)
Companhia Brasileira de Soluções e Serviços – CBSS(5).........................	–	15.32%	–	20,364	6,335	3,892	–
Interchange Serviços S.A.(1)	–	–	–	–	–	319	–
Total...			**419,122**	**633,595**	**295,414**	**112,330**	**5,884**

(1) Changes in the scope of consolidation and subsequently sold during 2008.
(2) Although the participations were less than 20%, the bank presumed significant influence on such participations, which was evidenced due to the bank's representation on the board of directors of investees, participation in policy-making process, including participation in decisions about dividends and material transactions between the bank and the investees.
(3) Although the Bank possesses a minimum of 50% on each of these companies, they are not consolidated, as the Bank does not have control of such entities, either through veto rights or other shareholders' agreement items.
(4) The company has become consolidated by the Bank, as part of the merger of Santander Seguros into the Bank, approved on August 14, 2009, as described in note 2.b. and incorporated by Santander Seguros in September 2009.
(5) Investment sold in 2009.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

b) Changes

The changes in the balance of this item were as follows:

	2009	2008
	(Thousands of *Reais*)	
Balance at beginning of year	**633,595**	**54,565**
Changes in the scope of consolidation	338,715	517,143
Disposals and capital reductions[1]	(698,988)	(3,098)
Effect of equity accounting	295,414	112,330
Dividends paid	(153,181)	(46,384)
Other	3,567	(961)
Balance at end of year	**419,122**	**633,595**

(1) In 2009, the Bank made a disposal of investment of Companhia Brasileira de Meios de Pagamentos – (VisaNet), Tecban – Tecnologia Bancária S.A. and Companhia Brasileira de Soluções e Serviços – CBSS accounting a net gain of R$3,315 million recorded in Gains/losses on disposal of assets not classified as non-current asset held for sale.

c) Impairment losses

No impairment was accounted with respect to investments in associates in 2009 or 2008.

d) Other disclosures

Following is a summary of the financial information on the associates (obtained from the information available at the reporting date).

	2009	2008
	(Thousands of *Reais*)	
Total assets	6,040,977	16,354,230
Total liabilities	5,087,708	14,099,847
Total revenues	605,491	5,883,440
Total profit	101,906	1,613,115

12. Tangible assets

Tangible assets of the Bank relate to property, plant and equipment for own use. The Bank does not have tangible assets held as investment property nor leased out under operating leases. The Bank is also not a part of any financial lease contracts as of and during fiscal years ended December 31, 2009 and 2008.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The detail, by class of asset, of the tangible assets in the consolidated balance sheets is as follows:

	Cost	Accumulated Depreciation	Impairment Losses	Net Balance
	(Thousands of *Reais*)			
Land and buildings	1,961,109	(184,664)	(90,619)	**1,685,826**
IT equipment and fixtures	1,129,380	(624,970)	–	**504,410**
Furniture and vehicles	2,275,198	(662,038)	–	**1,613,160**
Construction in progress and other items	25,678	–	–	**25,678**
Balances at December 31, 2008	**5,391,365**	**(1,471,672)**	**(90,619)**	**3,829,074**
Land and buildings	2,098,622	(220,186)	(86,053)	**1,792,383**
IT equipment and fixtures	1,233,776	(747,826)	–	**485,950**
Furniture and vehicles	2,068,058	(644,622)	–	**1,423,436**
Balances at December 31, 2009	**5,400,456**	**(1,612,634)**	**(86,053)**	**3,701,769**

Changes

The changes in "Tangible assets" in the consolidated balance sheets were as follows:

	2009	2008
	(Thousands of *Reais*)	
Cost:		
Balances at beginning of the year	5,391,365	2,539,531
Changes in the scope of consolidation (note 3)	5,524	1,344,375
Additions/Disposals (net)	5,781	1,509,306
Exchange differences and other items	(2,214)	(1,847)
Balances at end of the year	**5,400,456**	**5,391,365**
Accumulated depreciation:		
Balances at beginning of the year	(1,471,672)	(1,336,134)
Changes in the scope of consolidation (note 3)	(1,452)	-
Disposals	257,146	149,204
Charge for the year	(447,138)	(301,731)
Exchange differences and other items	50,482	16,989
Balances at end of the year	**(1,612,634)**	**(1,471,672)**
Impairment losses:		
Balances at beginning of the year	(90,619)	(92,427)
Impairment charge for the year	4,566	(28,129)
Transfers and other changes	-	29,937
Balances at end of the year	**(86,053)**	**(90,619)**
Tangible assets, net:	**3,701,769**	**3,829,074**

The depreciation expenses has been included in the line item "Depreciation and Amortisation" in the income statement.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

13. Intangible assets - Goodwill

The goodwill recorded is subject to impairment test at least annually or whenever there are indications of impairment.

For this purpose, management estimates cash flow that is subject to several factors, including: (i) macro-economic projections of interest rates, inflation, exchange rate and other, (ii) the conduct and growth estimates (iii) increased costs, returns, synergies and investment plan, (iv) the behavior of customers, and (v) growth rate and adjustments applied to flows in perpetuity. The adoption of these estimates involves the likelihood of future events and changing some of these factors could have a different result.

Based on the assumptions described above the tests carried out did not identify any impairment to the Company's goodwill in 2009.

The breakdown of "Goodwill" is as follows:

	2009	2008
Banco ABN Amro Real S.A.	27,217,565	27,488,426
Real Seguros Vida e Previdência	1,094,671	–
	28,312,236	**27,488,426**

The changes of goodwill in December, 31 2009 and 2008 were as follows:

	2009	2008
	(Thousands of *Reais)*	
Balance at beginning of the year	**27,488,426**	**–**
Acquisitions:		
Banco ABN Amro Real S.A.(1)	124,684	27,488,426
Real Seguros Vida e Previdência	1,094,671	–
Disposals:		
Banco ABN Amro Real S.A.(2)	(395,545)	–
Balance at end of the year	**28,312,236**	**27,488,426**

(1) Includes the adjusted amount of R$124,684 thousand in June 30, 2009, related to fair value´s final determination, as allowed by IFRS 3.

(2) It includes the partial write-off of the goodwill on investments on ABN Amro Brasil Dois Participações S.A. and Companhia Brasileira de Meios de Pagamento - Visanet.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

14. Intangible assets - Other intangible assets

The breakdown of the balance of "Other intangible assets" is as follows:

	Estimated Useful Life	2009	2008
		(Thousands of *Reais*)	
With finite useful life:			
IT developments	3 years	1,711,000	1,122,446
Customer relationship	(1)	4,288,031	3,701,604
Other assets	up to 5 years	237,517	11,684
Accumulated amortization		(2,123,698)	(1,177,222)
Impairment losses		(807,147)	(151,651)
		3,305,703	**3,506,861**

(1) Includes accrued payments related to the commercial partnership contracts with the private and public sectors to secure exclusivity for banking services of payroll credit processing and payroll loans, maintenance of collection portfolio, supplier payment services and other banking services. Banco Real's customer relationship is amortized in 10 years and exclusivity contracts for provision of banking services are amortized over the term of the respective agreements.

The changes in "Other intangible assets" were as follows:

	2009	2008
	(Thousands of *Reais*)	
Balance at beginning of year	**3,506,861**	**1,799,182**
Change in the scope of consolidation (note 3)	8,296	1,610,007
Additions/Disposals (net)	1,466,411	688,357
Amortization	(801,474)	(544,274)
Impairment losses(1)	(859,216)	(52,002)
Exchange differences and other changes (net)	(15,175)	5,591
Balance at end of year	**3,305,703**	**3,506,861**

(1) In 2009, includes a provision for impairment losses over the purchase of contracts for providing banking services in the amount of R$818,843 thousand. This impairment was recognized due to: (i) change in the Law of the portability of current accounts which allowed customers to choose the bank which they want to receive their salaries; (ii) reduction on the market value of contracts for provision of banking services; and (iii) the contracts termination experience.

The amortization expenses has been included in the line item "Depreciation and Amortization" in the income statement.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

15. Other assets

The breakdown of the balance of "Other assets" is as follows:

	2009	2008
	(Thousands of *Reais)*	
Transactions in transit	684,409	3,873
Prepayments and accrued income	1,059,738	1,186,188
Other receivables	127,290	1,680,543
	1,871,437	**2,870,604**

16. Deposits from the Brazilian Central Bank and Deposits from credit institutions

The breakdown, by classification, type and currency, of the balances of these items is as follows:

	2009	2008
	(Thousands of *Reais)*	
Classification:		
Other financial liabilities at fair value through profit or loss	1,795	307,376
Financial liabilities at amortized cost	21,195,959	26,510,219
Of which:		
Deposits from the Brazilian Central Bank	240,113	184,583
Deposits from credit institutions	20,955,846	26,325,636
	21,197,754	**26,817,595**
Type:		
Demand deposits	195,081	65,585
Time deposits	20,838,179	26,720,554
Repurchase agreements	164,494	31,456
	21,197,754	**26,817,595**
Currency:		
Reais	10,706,908	9,711,892
Euro	236,572	979,026
US dollar	10,004,349	12,957,208
Other currencies	249,925	3,169,469
	21,197,754	**26,817,595**

Note 41-d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

17. Customer deposits

The breakdown, by classification and type, of the balance of "Customer deposits" is as follows:

	2009	2008
	(Thousands of *Reais*)	
Classification:		
Financial liabilities at amortized cost	149,440,156	155,494,839
	149,440,156	**155,494,839**
Type:		
Demand deposits		
Current accounts	*15,139,942*	*15,297,660*
Savings accounts	*25,216,924*	*20,642,679*
Time deposits	74,633,544	88,880,022
Repurchase agreements	34,449,746	30,674,478
	149,440,156	**155,494,839**

Note 41-d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

18. Marketable debt securities

The breakdown, by classification and type, of the balance of "Marketable debt securities" is as follows:

	2009	2008
	Thousands of *Reais*	
Classification:		
Financial liabilities at amortized cost	11,439,010	12,085,655
	11,439,010	**12,085,655**
Type:		
Bonds outstanding	5,805,455	5,342,334
Notes and other securities	5,633,555	6,743,321
Total	**11,439,010**	**12,085,655**
Of which:		
Securitization notes (MT100)(1)	1,371,588	1,816,289
Agribusiness credit notes – LCA	1,231,260	2,016,367
Real estate credit notes – LCI	5,985,385	4,496,764

(1) It includes the series 2004-1 in the amount of US$190 million (2008- US$277 million), with charges equivalent to 5.5% p.a., payable semiannually until September 2011, the series 2008-1 in the amount of US$190 million, with charges equivalent to 6.2% p.a., payable semiannually, with the principal payable in 10 installments between September 2010 to September 2015 and the series 2008-2 in the amount of US$300 million, with charges equivalent to Libor (6 months) + 0.80 p.a., payable semiannually, with the principal payable in 10 installments between March 2010 to September 2014 related to Payable for sale of right to receipt of future flow of payment orders receivable from foreign correspondent banks, the series 2009-1 in the amount of US$50 million, with charges equivalent to 2.8% p.a., payable semiannually, with the principal payable in 6 installments between March 2012 to September 2014 and the series 2009-2 in the amount of US$50 million, with charges equivalent to 6.2% p.a., payable semiannually, with the principal payable between March 2013 to September 2019.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

At December 31, 2009 and 2008, none of these issues was convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares.

Note 41-d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates in each year.

The breakdown, by currency, of the balance of this account is as follows:

	2009	2008	2009	2008
	(Thousands of *Reais*)		Average Interest Rate (%)	
Currency:				
Reais	10,434,186	7,922,551	9.68%	14.90%
US Dollar	870,259	1,274,878	8.70%	8.64%
Balance at end of year	**11,304,445**	**9,197,429**	**9.60%**	**13.77%**

19. Subordinated liabilities

The detail of the balance of "Subordinated liabilities" is as follows:

	Issuance	Maturity	Amount (millions)	Interest rate	2009 Total	2008 Total
			(Thousands of *Reais*)			
Subordinated Certificates(1)	Jun-06	Jul-16	R$1.500	105.0% CDI	2,263,856	2,050,292
Subordinated Certificates(1)	Mar-09	Mar-19	R$1.507	13.8%	1,667,219	–
Subordinated Certificates(1)	Oct-06	Sep-16	R$850	104.5% CDI	1,226,492	1,111,313
Subordinated Certificates(1)	Jul-07	Jul-14	R$885	104.5% CDI	1,155,269	1,046,778
Perpetual Bonds(2)	Sep-05	N/A	US$500	8.7%	870,259	1,163,487
Subordinated Certificates(1)	Apr-08	Apr-13	R$600	100.0% CDI + 1.3%	733,444	659,220
Subordinated Certificates(1)	Apr-08	Apr-13	R$555	100.0% CDI + 1.0%	679,443	612,183
Subordinated Certificates(1)	Jul-06 to Oct-06	Jul-16	R$447	104.5% CDI	665,790	603,266
Subordinated Certificates(1)	Jan-07	Jan-13	R$300	104.0% CDI	418,055	378,974
Subordinated Certificates(1)	Aug-07	Aug-13	R$300	100.0% CDI + 0.4%	390,192	353,546
Subordinated Certificates(1)	Jan-07	Jan-14	R$250	104.5% CDI	348,846	316,086
Subordinated Certificates(1)(3)	May-08 to Jun-08	May-13 to May-18	R$283	CDI	338,366	305,087
Subordinated Certificates(1)(4)	May-08 to Jun-08	May-13 a Jun-18	R$268	IPCA	325,676	288,447
Subordinated Certificates(1)	Nov-08	Nov-14	R$100	120.5% CDI	114,490	102,184
Subordinated Certificates(1)	Feb-08	Feb-13	R$85	IPCA +7.9%	107,048	95,175
"Floating Rate Notes"	Nov-99	Nov-09	US$170	Libor + 4.5%	–	94,704
"Floating Rate Notes"	Nov-99	Nov-09	US$30	Libor + 4.5%	–	16,687
Total					**11,304,445**	**9,197,429**

(1) Subordinated certificates of deposit issued by Banco Santander S.A. with yield paid at the end of the term together with the principal.
(2) Perpetual bonds issued by the Grand Cayman branch with quarterly interest payments. These bonds do not have a maturity date or mandatory redemption, although they may, at the discretion of Banco Santander S.A. and with prior authorization by the Central Bank of Brazil, be redeemed in full at December 2010 or on any subsequent interest payment date.
(3) Indexed to 109% and 112% of the CDI or CDI plus interest of 1.16% p.a. to 1.53% p.a.
(4) Indexed to the IPCA (extended consumer price index) plus interest of 8.28% p.a. to 8.65% p.a.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The detail by currency, of the balance of "Subordinated liabilities" is as follows:

	2009	2008	2009	2008
	(Thousands of *Reais)*		Average Interest Rate (%)	
Currency:				
Reais	10,434,186	7,922,551	9.68%	14.90%
US Dollar	870,259	1,274,878	8.70%	8.64%
Balance at end of year	**11,304,445**	**9,197,429**	**9.60%**	**13.77%**

The changes in "Subordinated liabilities" were as follows:

	2009	2008
Balances at beginning of year	**9,197,429**	**4,210,224**
Change in the scope of consolidation (note 3)	–	3,491,143
Issues	1,507,000	650,000
Subordinated Certificates (maturity within May 2013 to May 2018 and index to CDI)	–	*282,500*
Subordinated Certificates (maturity within May 2013 to May 2018 and index to IPCA)	–	*267,500*
Subordinated Certificates (maturity in November 2014 and index to CDI)	–	*100,000*
Subordinated Certificates (maturity in May 2019 and 13.5% fixed interest rate)	*1,507,000*	–
Redemption		
Quartely interest payments	*(159,905)*	*(126,802)*
Interest	1,076,557	690,014
Foreign exchange	(316,636)	282,850
Balances at end of year	**11,304,445**	**9,197,429**

Note 41-d contains a detail of the residual maturity periods of subordinated liabilities at each year-end and of the related average interest rates in each year.

20. Other financial liabilities

The breakdown of the balances of these items is as follows:

	2009	2008
	(Thousands of *Reais)*	
Credit card obligations	5,293,202	4,898,336
Unsettled financial transactions	2,060,835	3,107,531
Dividends payable	1,623,885	1,449,922
Tax collection accounts – Tax payables	482,544	838,893
Other financial liabilities	727,698	390,490
	10,188,164	**10,685,172**

Note 41-d contains a detail of the residual maturity periods of other financial assets and liabilities at each year-end.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

21. Provisions

a) Breakdown

The breakdown of the balance of "Provisions" is as follows:

	2009	2008
	(Thousands of *Reais*)	
Provisions for pensions and similar obligations	1,096,799	1,078,916
Provisions for commitments and other provisions(1)	8,383,463	7,836,329
Provisions	**9,480,262**	**8,915,245**

(1) Includes mainly provisions for taxes and others legal, civil and labor contingencies.

b) Changes

The changes in "Provisions" were as follows:

	2009			2008		
	Pensions	Provisions for commitments and other provisions(1)	Total	Pensions	Provisions for commitments and other provisions(1)	Total
			(Thousands of *Reais*)			
Balances at beginning of year	**1,078,916**	**7,836,329**	**8,915,245**	**777,639**	**4,038,682**	**4,816,321**
Net change in the scope of consolidation (note 3)	–	96,459	96,459	273,423	4,570,516	4,843,939
Additions charged to income:						
Interest expense and similar charges (note 30)	100,567	–	100,567	91,437	–	91,437
Personnel Expenses (note 37)	36,534	–	36,534	45,060	–	45,060
Additions to provisions	43,464	3,437,229	3,480,693	18,359	1,211,958	1,230,317
Payments to pensioners and early retirees with a charge to internal provisions	(35,752)	–	(35,752)	(33,054)	–	(33,054)
Payments to external funds	(130,095)	–	(130,095)	(93,948)	–	(93,948)
Amount used	–	(2,726,181)	(2,726,181)	–	(2,142,761)	(2,142,761)
Transfers, exchange differences and other changes	3,165	(260,373)	(257,208)	–	157,934	157,934
Balances at end of year	**1,096,799**	**8,383,463**	**9,480,262**	**1,078,916**	**7,836,329**	**8,915,245**

(1) Includes, primarily, legal obligations, tax and social security, labor and civil contingencies.

c) Provisions for pensions and similar obligations

i. Supplemental Pension Plan

The Bank and its subsidiaries sponsor private pension entities and plans for the purpose of providing retirement and pension benefits that supplement those provided by government, as defined in the basic regulations of each plan.

- **Banesprev – Fundo Banespa de Seguridade Social (Banesprev)**
  - Plan I: Defined benefit plan fully defrayed by the Bank, covers employees hired on or after May 22, 1975, and those hired by May 22, 1975 who are also entitled to death benefits.
  - Plan II: Defined benefit plan effective July 27, 1994, when the new text of the Statutes and Basic Regulations of Plan II came into effect, Plan I participants who opted for the new plan began contributing 44.94% of the funding rate established by the actuary for each period.
  - Plan V: Defined benefit plan fully defrayed by the Bank, covers employees hired on or after May 22, 1975.
  - Supplemental Pension Plan: Defined benefit plan created in view of the privatization of Banespa and is managed by Banesprev. This Plan, effective January 1, 2000, is provided only to employees hired until May 22, 1975.
  - Plan III: Defined contribution covering employees hired on or after May 22, 1975, previously enrolled in Plans I and II. In this plan, contributions are made by both the sponsor and participants.
  - Plan IV: Defined contribution covering employees hired on or after November 27, 2000, in which the sponsor contributes only to risk benefits and administrative costs.
- **Sanprev – Santander Associação de Previdência (Sanprev)**
  - Plan I: Defined benefit plan established on September 27, 1979 as a defined benefit plan for employees of plan sponsors, and has been in the process of discontinuance since July 1, 1996.
  - Plan II: provides a risk coverage, temporary supplemental pension, disability retirement, lump-sum death benefit, supplemental sick pay and birth grant, for employees of plan sponsors and is funded exclusively by the sponsors through monthly contributions corresponding to 1.16% of the total payroll, structured as a defined benefit plan. Monthly contributions are apportioned as follows: 0.28% for risk benefits and 0.88% for the administrative program.
  - Plan III: provides period-certain annuity and monthly life annuity for employees of contributing sponsors and is structured as a defined contribution plan, whereby contributions are freely made by participants starting at 2% of the contribution salary.

- **Holandaprevi:**

Defined contribution plan. In June 2009, the Holandaprevi Pension Plan was redesigned to offer to the employees of the Santander the contribution to which is shared by the employee and the company. Holandaprevi is a private pension entity engaged in providing social security benefit plans which are supplementary to the government social security plan, in accordance with prevailing legislation.

- **Previban:**

Defined benefit plan, managed by Previban - Previdência Privada Paraiban, sponsored by Banco Santander, whose participants are the former employees of Banco da Paraíba S.A. - Paraiban. This plan is closed to new entrants and is in process of withdrawal of sponsoring.

- **Bandeprev:**

Defined benefit plan, sponsored by Banco Santander and managed by Bandeprev - Bandepe Previdência social. The plans are divided into basic plan and special plan, with different eligibility requirements, contributions and benefits by subgroups of participants. Both plans are closed to new entrants. As a result of the spin-off of Banco de Pernambuco S.A. - Bandepe's operations and subsequent merger into Banco Real., the employees of Bandepe were transferred to Banco Real on May 1, 2006.

- **Fasass:**

In June, 2009, after the approval of the Supplementary Pension Plan Secretariat (SPC), the individual reserves of defined benefit and variable contribution private pension plans, under the responsibility of Fundação América do Sul de Assistência e Seguridade Social (FASASS), were transferred to the private pension plan company which is not a member of the Santander. The purpose of this operation is to offer to the assisted members and beneficiaries the option of receiving a benefit equivalent to that of the PGBL (pension plan similar to a life insurance), in view of the cancellation of the sponsorship by the Bank, approved by SPC on February 27, 2009. For the members who joined the new plans (PGBLs), Banco Santander transferred R$26,963, with financial settlement in July 2009, to form the Mathematical Reserve for Benefits Granted.

- **Other:**

Banco Santander S.A. is the sponsor of pension plans for associated employees, structured as defined benefit plans.

ii. Actuarial Techniques

The amount of the defined benefit obligations was determined by independent actuaries using the following actuarial techniques:

- **Valuation method:**

Projected unit credit method, which sees each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

- **Nominal discount rate for actuarial obligation:**
  - Banesprev - Plan V and Other Plans - 11.1% (2008 - 11.07%).
  - Banesprev - Supplementary Pension Plan - 11.1% (2008 - 14.9%).
  - Sanprev - 11.1% (2008 - 12.5%).
  - Bandeprev, Holandaprevi e Previban - 11.1% (2008 - 10.3%).
- **Expected rate of return on plan assets:**
  - Banesprev - Plan I - 12.1% (2008 - 12.9%).
  - Banesprev - Plan II - 12.5% (2008 - 12.9%).
  - Banesprev - Plan III - 12.5% (2008 - 12.9%).
  - Banesprev - Plan IV - 10.6% (2008 - 12.5%).
  - Banesprev - Supplementary Pension Plan - 11.1% (2008 - 14.9%).
  - Banesprev - Plan V - 10.8% (2008 - 16.5%).
  - Sanprev - 10.6% (2008 - 10.6%).
  - Bandeprev - 10.0% (2008 - 12.1%), Holandaprevi 9.7% and Previban - 11.7% (Previban and Holandaprevi for 2008 - 11.8%).
- **Estimated long-term inflation rate:**
  - Sanprev - All Plans - 4.2% (2008 - 4.0%).
  - Banesprev, Bandeprev and Holandaprevi - 4.2% (2008 - 4.0%).
  - Previban - 4.0% (2008, 4.0%).
- **Estimate salary increase rate:**
  - Banesprev - Plans I to V and Other Plans - 4.7% (2008, 4.0%).
  - Bandeprev and Holandraprevi - 4.7% (2008, 1.0%).
  - Previban - Null growth, as they do not have active participants.
  - Sanprev - 4.7% (2008, 4.2%).

- **Estimated benefit increase rate:**
  - Banesprev - 4.2% (2008, 4.0%).
  - Previban - 4.0% (2008 - 0%)
  - Holandaprevi - 4.2% (2008, 4.0%).
  - Bandeprev - 4.2% (2008, 4.0%).
  - Sanprev - 4.2% (2008, 4.0%).
- **• General mortality biometric table:**
  - Banesprev, Sanprev, Holandaprevi, Bandeprev e Outros Planos - AT-2000.
  - Previban - UP-94 segregated by sex.
- **Disability biometric table and disability mortality table:**
  - Banesprev, Sanprev, Holandaprevi and Previban - Mercer Disability Table.
  - Bandeprev - Mercer Disability Entrance Table.
- **Expected Turnover table:**
  - Banesprev - Plan V (0.1/length os service + 1) until 50 years of age. (There was no change since 2008 for this criteria).
  - Banesprev - Plan II - 2.0% (2008, 2.0%).
  - Banesprev - Supplementary Pension Plan and Other Plans - 0%.
  - Sanprev - 0%.
  - Holandaprevi segregated by age according to the rates below, by minimum wage (MW): up to 10 MW - 10% (under 30 years old) or 9% (between 30 and 35 years old); from 10 MW to 20 MW - 9% (under 30 years old) or 8% (between 30 and 35 years old); and above 20 MW - 8% (under 30 years old) or 7% (between 30 and 35 years old). (There was no change in this criteria since 2008).
  - Bandeprev. segregated by age and wage, as follow: upt to 10 MW = 0.45/(length of service + 1); from 10 MW to 20 MW = 0.30/(length of service + 1); and above 20 MW = 0.15/(length of service + 1). (There were no changes for this criteria since 2008).
  - Previban null turnover table, due to absense of active participants. (There was no change in this criteria since 2008).

- **Probability of retirement: 100% upon first eligibility.**

iii. Health and Dental Care Plan

- **Cabesp - Caixa Beneficente dos Funcionários do Banco do Estado de São Paulo S.A**

The Bank contributes to Cabesp, an entity that covers health and dental care expenses of employees hired until Banespa privatization in 2000.

- **Holandaprevi's retirees**

Holandaprevi's retirees' health care plan is a lifetime benefit and receives a subsidy of 30% of the basic plan cost from the sponsor, payable only to beneficiaries entitled to the benefits through December 31, 2002. Costing is made directly by the sponsor.

- **Former employees of Banco Real S.A. (retiree by Circulares)**

The health care plan of the former employees of Banco Real is a lifetime benefit and receives a subsidy of 90% of the basic plan cost from the sponsor.

- **Bandeprev's retirees**

The health care plan of Bandeprev's pension plan beneficiaries is a lifetime benefit, for which the Bank is responsible for defraying 50% of the benefits of employees retired before the date the sponsor Banco de Pernambuco S.A. - Bandepe was privatized and 30% of the benefits of employees retired after privatization.

- **Officer with lifetime benefits (Lifetime Officers)**

Lifetime health care benefit granted to former officers of Banco Sudameris Brasil S.A. who held an officer position at Banco Sudameris Brasil S.A. for a period of ten years or more (closed group). With the merger of Banco Sudameris Brasil S.A., Banco Real became responsible for ensuring the benefit.

- **Plasas - Fasass' Supplementary Health Plan (Plasas)**

Voluntary health plan, created on July 1, 1989, supplementary to the health care plan and only for cases of hospitalization.

It includes a reserve made up by participants' and Fasass' contributions, which are suspended since August 1999. The Plan is closed to new entrants since July 1999.

- **Life insurance for Banco Real's retirees (Life Insurance)**

Life insurance policy for former employees of Banco Real. Upon the death of the beneficiary, his/her dependent receives a lump-sum death benefit and, upon the death of the beneficiary's spouse, the beneficiary receives 50% of such amount. Banco Real subsidizes 45% of the total premium (closed group).

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

- **Free clinic**

The health care plan "free clinic" is a lifetime plan offered to the retirees who have contributed to Fundação Sudameris for at least 25 years and is funded by the users. The plan is offered only for hospitalization in wards.

During 2009, the Bank recognized an expense of R$36,534 thousand (2008 - R$33,166 thousand and 2007 - R$ 3,919 thousand) related to contributions to pension funds (note 37).

The funding status of the defined benefit obligations in 2009 and 2008 is as follows:

	Post-Employment Plans		Other Similar Obligations	
	2009	2008	2009	2008
	(Thousands of *Reais*)			
Present value of the obligations:				
To current employees	1,078,765	954,321	23,053	26,806
Vested obligations to retired employees	12,644,915	11,676,568	3,842,505	2,684,670
To early retirees		–		44
	13,723,680	12,630,889	3,865,558	2,711,520
Less:				
Fair value of plan assets	13,324,387	12,390,745	3,683,450	2,897,569
Unrecognized actuarial (gains)/losses	223,152	(180,135)	282,858	(223,100)
Unrecognized assets	(619,308)	(378,950)	(402,457)	(242,636)
Unrecognized past service cost	358	–	–	–
Provisions – Provisions for pensions	**795,091**	**799,229**	**301,707**	**279,687**

The amounts recognized in the consolidated income statement in relation to the aforementioned defined benefit obligations are as follows:

	Post-Employment Plans		Other Similar Obligations	
	2009	2008	2009	2008
	(Thousands of *Reais*)			
Current service cost	22,051	21,284	14,483	23,776
Interest cost	1,362,265	1,362,586	307,459	311,758
Expected return on plan assets	(1,291,696)	(1,278,663)	(277,461)	(304,244)
Extraordinary charges:	–		–	
Actuarial (gains)/losses recognized in the year	36,552	16,726	6,857	–
Past service cost	57	–	–	–
Early retirement cost	–	–	–	1,633
Total	**129,229**	**121,933**	**51,338**	**32,923**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The changes in the present value of the accrued defined benefit obligations were as follows:

	Post-Employment Plans		Other Similar Obligations	
	2009	2008	2009	2008
	(Thousands of *Reais*)			
Present value of the obligations at beginning of year	12,630,889	10,003,684	2,711,520	2,786,388
Change in the scope of consolidation (note 3)	–	1,372,869	–	291,755
Current service cost	22,051	21,284	14,483	23,776
Interest cost	1,362,265	1,362,586	307,459	311,758
Early retirement cost	–	–	–	1,633
Benefits paid	(1,394,064)	(922,771)	(178,875)	(157,266)
Past service cost	–	–	–	–
Actuarial (gains)/losses	1,102,539	931,691	1,010,971	(539,867)
Other	–	(138,454)	–	(6,657)
Present value of the obligations at end of year	**13,723,680**	**12,630,889**	**3,865,558**	**2,711,520**

The net inclusion of entities in the Bank mainly relates to Banco Real.

The changes in the fair value of the plan assets were as follows:

	Post-Employment Plans		Other Similar Obligations	
	2009	2008	2009	2008
	(Thousands of *Reais*)			
Fair value of plan assets at beginning of year	12,390,745	10,117,296	2,897,569	2,782,114
Change in the scope of consolidation (note 3)*	–	1,574,595	–	93,401
Expected return on plan assets	1,291,696	1,278,663	277,461	304,244
Actuarial gains/(losses)	684,445	230,194	638,240	(169,057)
Contributions	106,837	83,055	42,751	41,487
Of which:	–		–	
By the Bank(1)	84,495	67,513	37,635	36,021
By plan participants	22,341	15,542	5,116	5,466
Benefits paid	(1,149,336)	(893,058)	(172,572)	(153,225)
Exchange differences and other items	–	–	–	(1,395)
Fair value of plan assets at end of year	**13,324,387**	**12,390,745**	**3,683,450**	**2,897,569**

* The net inclusion of entities in the Bank relates mainly to Banco Real in 2008 (Note 3)

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

In 2010 the Bank expects to make contributions to fund these obligations for amounts similar to those made in 2009.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2009	2008
Equity instruments	2.55%	5.47%
Debt instruments	96.58%	92.85%
Properties	0.12%	0.10%
Other	0.75%	1.58%

The expected return on plan assets was determined on the basis of the market expectations for returns over the duration of the related obligations.

The following table shows the estimated benefits payable at December 31, 2009 for the next ten years:

	Thousands of *Reais*
2010	1,264,185
2011	1,309,276
2012	1,364,315
2013	1,420,332
2014	1,476,617
2015 a 2019	8,220,000
	15,054,725

d) Provisions for commitments and other provisions

Banco Santander S.A. and its subsidiaries are parties to judicial and administrative proceedings involving tax, civil and labor matters arising in the normal course of their business.

Provisions were recognized based on the nature, complexity and history of the lawsuits, and the opinion of the in-house and outside legal counsel. Santander’s policy is to accrue the full amount of lawsuits whose likelihood of unfavorable outcome is probable.

Legal obligations - tax and social security were fully recognized in the financial statements.

Management understands that the recognized provisions are sufficient to cover probable losses on the lawsuits.

i. Legal obligations and tax and social security contingencies

In November 2009, the Bank and its controlled entities joined the program of installments and payment of tax debts and social security established by Law 11941/2009. The main processes included in this program were: (i) Deductibility of CSLL, in which the entities were claiming the deduction of CSLL in the calculation of IRPJ. (ii) lawsuit filed by several companies of the consolidated challenging the application of an increased CSLL rate (18% - 30%) for financial institutions as compared to the rate for non-financial companies (8% - 10) and (iii) Concurrency IRPJ, in which ABN Leasing intended to reconcile for income tax depreciation expense in the same period of recognition of revenue from leasing consideration.

Considering the rules established in this Law, the accounting effects of tax and social security contingencies included as cash payment, were recorded at the time of entry into the program. As a result, was settled contingent tax liabilities in the amount of R$ 1,344,860 through the payment (R$ 422,857) and the conversion of guarantee deposits (R$ 731,160). It was recorded in the income of the year a net gain of R$ 207,603 before taxes. It was not used tax loss carryforwards or social contribution in the settlement of these tax debts as authorized by the Law.

The Bank and its subsidiaries also accepted to split the tax debts and social security, which may be settled at a later date after the formal consolidation of debts, to be held by the Federal Revenue Service, under the rules of the program. Thus, no accounting effect was recognized in the case of this kind of a split as it was not possible to identify and quantify the processes to be included in the program and its accounting effects.

The main judicial and administrative proceedings involving tax and social security obligations that remain after the application of Law n° 11.941/09 are:

- PIS and Cofins - R$3,734,078 thousand (2008 - R$2,210,489 thousand): lawsuit filed by several companies of the conglomerate against the provisions of article 3, paragraph 1 of Law No. 9718/98, pursuant to which PIS and COFINS must be levied on all revenues of legal entities. Prior to said provisions, already overruled by several recent decisions by the Federal Supreme Court, PIS and Cofins were levied only on revenues from services and sale of goods.

- CSLL - equal tax treatment - R$258,985 thousand (2008 - R$ 502,948 thousand) - lawsuit filed by several companies of the consolidated challenging the application of an increased CSLL rate (18% - 30%) for financial institutions as compared to the rate for non-financial companies (8% - 10%). These proceedings were not subject of the application of Law n° 11.941/09.

- Increase in CSLL tax rate - R$548,550 thousand (2008 – 136,853 thousand) - the Bank and other companies of the conglomerate filed for an injunction to avoid the increase in the CSLL tax rate established by Executive Act 413/2008, converted into Law 11.727/2008. Financial institutions were subject to a CSLL tax rate of 9%, however the new legislation established a 15% tax rate.

- Service Tax (ISS) - Financial Institutions - R$268,845 thousand (2008 - R$279,554 thousand): refers to administrative and judicial proceedings with several municipalities that require the payment of ISS on several revenues from operations that usually do not qualify as service provision.

- Social Security Contribution (INSS) - R$209,045 thousand (2008 - R$163,896 thousand): refers to administrative and judicial proceedings on several companies seeking collection of social security contribution and salary premium for education on amounts that normally are not of a salary nature.

- Allowance for doubtful accounts - R$209,559 thousand (R$205,714 thousand) - collection of IRPJ and CSLL levied on the allowance for doubtful accounts, arising from the deduction, considered undue by tax authorities, in calendar 1995, alleging that the tax criteria in effect at the time were not complied with.

ii. Labor contingencies

These are lawsuits brought by labor unions and former employees claiming labor rights they understand are due, especially payment for overtime and other labor rights, including retirement benefit lawsuits.

For labor claims considered to be similar and usual, provisions are recognized based on the history of payments made. Labor claims that do not fit into the previous criterion are accrued according to the escrow deposits made for the lawsuits or are assessed individually, and provisions are recognized based on the status of each lawsuit, law and previous court decisions according to the assessment of the likelihood of a favorable outcome, and the risk assessment made by the legal counsel.

iii. Civil contingencies

Lawsuits for indemnity seek indemnity for property damage and/or moral, relating to the consumer relationship on matters related to credit cards, bank accounts, collection and loans. There are also collection lawsuits related to the elimination of inflation effects in savings and escrow deposit accounts deriving from the Economic Plans (Bresser, Verão, Collor I and II) and other matters.

For civil lawsuits considered to be similar and usual, provisions are recognized based on the history of payments made. Civil lawsuits that do not fit into the previous criterion are accrued according to the individual assessment made, and provisions are recognized based on the status of each lawsuit, law and previous court decisions according to the assessment of the likelihood of a favorable outcome, and the risk assessment made by the legal counsel.

On September 1, 2009, the Bank reached an settlement with the non-controlling stockholders of the extinct Banco Noroeste related to the lawsuits filed against the corporate events that occurred in 1998 and 1999 and the lawsuits were terminated. This settlement and the resulting termination of the lawsuits have already been confirmed by courts.

iv. Other lawsuits under the responsibility of former controlling stockholders

Refer to tax, labor and civil lawsuits in the amounts of R$430,357, R$61,141 and R$33,601 (2008 - R$459,291, R$137,861 and R$57,386), with responsibility of the former controlling stockholders of the acquired entities. The lawsuits have guarantees under the agreements signed at the time of the acquisitions in the amount of R$525,099 (2008 - R$654,538). These lawsuits have no effects on the balance sheet.

v. Contingent liabilities classified as possible loss risk

Refer to judicial and administrative proceedings involving tax, civil and labor matters assessed by the legal counsels as possible losses, which were not accounted for. The main lawsuits are:

- CPMF (tax on banking transactions) on Customer Operations - in May 2003, the Federal Revenue Service issued an Infraction Notice against Santander Distribuidora de Títulos e Valores Mobiliários Ltda. (Santander DTVM), actual Produban Serviços Técnicos de Informática S.A.and another Infraction Notice against the former Banco Santander Brasil S.A., both in the amount of R$290 million. The notices refer to the collection of a CPMF tax credit on transactions conducted by Santander DTVM in the management of its customers' funds and clearance services provided by the Bank to Santander DTVM, according to the agreement between these two companies, in 2000, 2001 and the first two months of 2002. Both companies consider that the tax treatment adopted was adequate since said transactions were subject to CPMF at zero rate. The Board of Tax Appeals judged the administrative proceedings, annulling the infraction notice of Santander DTVM and confirming the infraction notice of the Bank. It is awaiting a trial filed by the bank, in face of order dismissing the continuity of the appeal. The updated amount of each proceeding is approximately R$515 million.

- IRPJ and CSLL on Reimbursement arising from Contractual Guarantees – in December 2007, the Federal Revenue Service issued an Infraction Notice in the amount of R$320 million against Banco Santander S.A. The notice refers to the collection of IRPJ and CSLL for tax year 2002 on amounts reimbursed by the former controlling stockholder of Banco Santander S.A. for payments made by the Bank that were the responsibility of the controlling stockholder. The Federal Revenue Service understood that the amount deposited in favor of Santander S.A. is not a reimbursement but a taxable income. The Bank has filed an administrative defense and the decision was unfavorable. The updated amount of each proceeding is approximately R$381 million.

- Losses on lending operations - Administrative collection by the Federal Revenue Service in view of the deduction from the IRPJ and CSLL basis of losses on lending operations once they would not have met the conditions and terms laid down in the current legislation. The updated amount involved is approximately R$224 million.

- CSLL - Unconstitutionality - Noncompliance with the amnesty established by Law 9.779/1999 - claims that entities that joined the amnesty failed to comply with the requirements of such Law, alleging that such entities were not supported by an injunction for all periods paid (1989 to 1999). The judicial and administrative proceedings are awaiting judgment. The updated amount involved is approximately R$165 million.

- CSLL - equal tax treatment - Amendment 10/96 - Lawsuit regarding the difference in social contribution tax rate applied to financial institutions and equivalent entities in the first half of 1996, as such tax rate was higher than the rates applied to other legal entities, which is contrary to the precedence and non-retroactivity constitutional principle. There is a lawsuit awaiting judgment and other appeals pending decisions. The adjusted amount involved is approximately R$162 million.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

- CSLL - Final and unappealable decision - This lawsuit claims the right not to recognize the tax credit claimed by the Federal Revenue Service related to alleged irregularities in the payment of CSLL, as the Entity was granted a favorable final and unappealable decision that overrules the collection of CSLL under Law 7.689/1988 and Law 7.787/1989. The appeals filed with the Federal Regional Court are awaiting a decision. The amount involved adjusted for inflation is approximately R$148 million.

- Semiannual Bonus or Profit Sharing - labor lawsuit relating to the payment of a semiannual bonus or, successively, profit sharing to retired employees from the former Banco do Estado de São Paulo S.A. - Banespa, hired by May 22, 1975. This lawsuit was filed by Banespa's Retirees Association and was judged by the Superior Labor Court and the Bank has filed an appeal. The involved amount is not disclosed due to the current stage of the lawsuit and the possibility of affecting its progress.

- Addition to the Price on the Purchase of Shares of Banco do Estado de São Paulo S.A. - Banespa - Filed an ordinary action claiming the inexistence of legal relationship before the National Treasury in relation to item 3.1 of the Banespa's Share Purchase and Sale Agreement. Such item provided for the payment of an addition to the minimum price should Banespa be released from the tax contingency recognized at the time of the privatization upon the setting of the minimum price. After an unfavorable lower court decision, on April 23, 2008, the 1st Region Federal Court accepted the appeal filed by the Bank and declared undue the collection. The updated amount involved is approximately R$345 million.

22. Other liabilities

The breakdown of the balance of "Other Liabilities" is as follows:

	2009	2008
	(Thousands of *Reais*)	
Accrued expenses and deferred income	1,751,717	2,026,316
Transactions in transit	349,097	336,265
Other	2,126,954	1,164,381
	4,227,768	**3,526,962**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

23. Tax matters

a) Income and Social Contribution Taxes

The total charge for the year can be reconciled to accounting profit as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Income before taxes, net of profit sharing	8,137,129	2,548,833	2,687,141
Interest on capital(1)	(825,122)	(480,000)	(527,600)
Unrealized profits	(4,707)	(1,335)	–
Income before taxes	**7,307,300**	**2,067,498**	**2,159,541**
Total income and social contribution tax at the rates of 25% and 15%, respectively(*)	(2,922,920)	(826,999)	(734,244)
PIS and COFINS (net of income and social contribution taxes)(2)	(993,057)	(492,554)	(389,984)
Equity in subsidiaries	118,166	44,932	2,001
Goodwill	1,519,094	375,542	303,178
Nondeductible expenses and provisions	32,865	(74,441)	63,150
Exchange variation - foreign branches(3)	(634,492)	681,453	(28,899)
Effect of income and social contribution taxes on prior year's temporary differences	157,493	125,311	26,664
Effects of change in tax rate and result in subsidiaries at the rate of 9%	67,176	(9,221)	–
Other adjustments	26,510	5,770	(26,008)
Income and social contribution taxes	**(2,629,165)**	**(170,207)**	**(784,142)**
Of which:			
Current tax	(3,650,660)	(1,173,722)	(749,295)
Deferred taxes	1,021,495	1,003,515	(34,847)
Taxes paid in the year	(1,973,257)	(918,677)	(392,791)

(*) 25% and 9% for 2007.

(1) Amount distributed to shareholders as interest attributable to shareholders' equity. For accounting purposes, although the interest should be reflected in the statement of income for tax deduction, the charge is reversed before the calculation of the net income in the statutory financial statements and deducted from the shareholders' equity since is considered as dividend.

(2) PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses), therefore and accordingly to IAS 12 it is recorded as income taxes.

(3) Relates to the net loss in 2009 and net gain in 2008 arising from the economic hedge of the Bank's position in Cayman, which is a non-autonomous subsidiary, offset by a loss recorded on "Gain/Losses on Financial Assets and Liabilities (Net)". See Note 34.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

b) Effective tax rate calculation

The effective tax rate is as follows:

	2009	2008
	(Thousands of *Reais*)	
Profit Before Taxes	8,137,129	2,548,833
Income tax	2,629,165	170,207
Effective tax rate(1)	32.31%	6.68%

(1) In 2009 and 2008, considering the tax effect of the exchange variation over foreign branches and the economic hedge, accounted in the Gains/losses on financial assets and liabilities (note 34) the effective tax rate would have been 23.2% and 25.0%, respectively.

c) Tax recognized in equity

In addition to the income tax recognized in the consolidated income statement, the Bank recognized the following amounts in consolidated equity:

	2009	2008
	(Thousands of *Reais*)	
Tax credited to equity:	**170,038**	**463,203**
Measurement of available-for-sale fixed-income securities	–	463,203
Measurement of available-for-sale equity securities	20,187	–
Measurement of cash flow hedges	149,851	–
Tax charged to equity:	**(568,155)**	**(165,996)**
Measurement of non-current assets held for sale	(19,397)	–
Measurement of available-for-sale fixed-income securities	(548,758)	–
Measurement of cash flow hedges	–	(165,996)
Total	**(398,117)**	**297,207**

d) Deferred taxes

The detail of the balances of “Tax assets – Deferred” and “Tax liabilities – Deferred” is as follows:

	2009	2008
	(Thousands of *Reais*)	
Tax assets	**13,617,159**	**11,769,157**
Of which:		
Tax loss carryforwards	1,669,755	1,377,470
Temporary differences (1)	11,947,404	10,391,687
Tax liabilities	**3,867,857**	**3,130,894**
Of which:		
Excess depreciation of leased assets	2,153,120	1,156,283
Adjustment to fair value of trading securities and derivatives	1,714,737	1,372,552

(1) Temporary differences relate mainly to impairment losses on loans and receivables and contingent liabilities.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The changes in the balances of "Tax Assets – Deferred" and "Tax Liabilities – Deferred" in the last two years were as follows:

	Balances at December 31, 2008	(Charge)/ Credit to Income	Charge/ Credit to Asset and Liability Revaluation Reserve	Acquisitions for the Year (Net)	Balances at December 31, 2009
			(Thousands of *Reais*)		
Deferred tax assets	11,769,157	1,753,146	107,989	(13,133)	13,617,159
Deferred tax liabilities	3,130,894	731,651	3,960	1,352	3,867,857
Total	**8,638,263**	**1,021,495**	**104,029**	**(14,485)**	**9,749,302**

	Balances at December 31, 2007	(Charge)/ Credit to Income	Charge/ Credit to Asset and Liability Revaluation Reserve	Acquisitions for the Year (Net)	Balances at December 31, 2008
			(Thousands of *Reais*)		
Deferred tax assets	4,073,205	2,224,953	45,185	5,425,814	11,769,157
Deferred tax liabilities	1,452,640	1,221,438	(491,031)	947,847	3,130,894
Total	**2,620,565**	**1,003,515**	**536,216**	**4,477,967**	**8,638,263**

24. Minority interests

"Minority interests" include the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Bank, including the portion attributed to them of profit for the year.

a) Breakdown

The detail, by company, of the balance of "Equity – Minority interests" is as follows:

	2009	2008
	(Thousands of *Reais*)	
Agropecuária Tapirapé S.A.	63	60
Banco ABN AMRO Real S.A.	–	80
Banco Comercial e de Investimento Sudameris S.A.	–	3,977
Real Leasing S.A. Arrendamento Mercantil	910	819
Real CHP S.A.	297	334
Brasil Foreign Diversified Payment Rights Finance Company	67	–
Other companies	1	9
	1,338	**5,279**
Profit for the year attributed to minority interests	**358**	**231**
Of which:		
Agropecuária Tapirapé S.A.	3	–
Banco Comercial e de Investimento Sudameris S.A.	–	206
Real Leasing S.A. Arrendamento Mercantil	94	19
Real CHP S.A.	261	–
Other companies	–	6

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

b) Changes

The changes in the balance of "Minority interests" are summarized as follows:

	2009	2008
	(Thousands of *Reais*)	
Balance at beginning of year	**5,279**	**57**
Change in the scope of consolidation (note 3)	(4,299)	4,991
Profit for the year attributed to minority interests	358	231
Balance at end of year	**1,338**	**5,279**

25. Valuation adjustments

The balances of "Valuation adjustments" include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognized temporarily in equity stated in the statement of changes in equity and recognized income and expense until they are extinguished or realized, when they are recognized in the consolidated income statement. The amounts arising from subsidiaries and jointly controlled entities are presented, on a line by line basis, in the appropriate items according to their nature.

It should be noted that the statement of recognized income and expense includes the changes to "Valuation adjustments" as follows:

- Revaluation gains/losses: includes the amount of the income, net of the expenses incurred in the year, recognized directly in equity. The amounts recognized in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognized in equity, even in the same year, which are recognized in the income statement.

- Amounts transferred to the initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognized in equity, even in the same year, which are recognized in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognized gross, including the amount of the valuation adjustments relating to minority interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) Available-for-sale financial assets

This item includes the net amount of unrealized changes in the fair value of assets classified as available-for-sale financial assets.

The changes in the balance at December 31, 2009 with respect to the previous year relate mainly to the increase arising from the gain of unrealized gains that were recognized in equity at 2008 year-end.

b) Cash flow hedges

This item includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognized in the consolidated income statement in the periods in which the hedged items affect it (see note 41-a).

Accordingly, amounts representing valuation losses will be offset in the future by gains generated by the hedged instruments.

26. Shareholders' equity

a) Capital

According to the bylaws, the Bank's capital may be increased to the limit of authorized capital, regardless of statutory, by resolution of the Board of Directors and through the issuance of up to 500 billion new shares, within the limits legally established as the number of preferred shares. Any increase in capital in excess of this limit will require the approval of the stockholders. The paid-up capital is represented as follows:

	2009			2008		
	Common	Preferred	Total	Common	Preferred	Total
			(Thousands of *Reais*)			
Brazilian residents	33,546,259	32,004,313	65,550,572	2,734,410	3,993,767	6,728,177
Foreign residents	179,295,473	154,198,072	333,493,545	171,558,006	147,472,100	319,030,106
Total shares	**212,841,732**	**186,202,385**	**399,044,117**	**174,292,416**	**151,465,867**	**325,758,283**
Total in thousands of *Reais*	**33,396,165**	**29,216,290**	**62,612,455**	**25,228,125**	**21,924,076**	**47,152,201**

On October 13, 2009, as a result of the Global Share Offering, the capital of Banco Santander was increased by 525,000.000 Units (totaling 55,125,000 thousand shares, out of which 28,875,000 thousand are common shares and 26,250,000 thousand are preferred shares), each Unit represents 55 common shares and 50 preferred shares, all registered shares, without par value. On October 29, 2009 the number of shares initially offered in the Global Share Offering was increased by 6.85%, i.e., 35,955,648, (3,775,343 thousand shares, of which 1,977,561 thousand are ordinary shares and 1,797,782 thousand are preferred shares). The capital increase totaled R$12,988,842 net of issuances costs of R$193,616.

The Extraordinary Shareholders' Meeting held on August 14, 2009 approved the capital increase of Banco Santander in the amount of R$2,471,413, with the issuance of 14,410,886 thousand shares (7,710,343 thousand are common shares and 6,700,543 thousand are preferred share),all of them registered and without par value, related to the share merger of Santander Seguros, Santander Brasil Asset and BCIS.

The Extraordinary Stockholders' Meeting held on August 29, 2008 approved the increase in Banco Santander's total capital from R$38,920,753, of which R$38,020,753 were allocated to Capital and R$900,000 to Capital Reserves, through the issuance of 189,300,327 thousand shares, (101,282,490 thousand are common shares and 88,017,837 thousand are preferred shared), without par value, related to the merger of shares of Banco Real and AAB Dois Par.

At the meeting held on July 25, 2008, the Board of Directors approved a capital increase of 3,689,477 thousand shares (1,974,003 thousand common shares and 1,715,474 thousand preferred shares), in the amount of R$800,000.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

b) Dividends and Interest on Capital

In accordance with the Bank's bylaws, stockholders are entitled to a minimum dividend equivalent to 25% of net income for the year, adjusted according to legislation. Preferred shares are nonvoting and nonconvertible, but have the same rights and advantages granted to common shares, in addition to priority in the payment of dividends 10% higher than those paid on common shares, and in the capital reimbursement, without premium, in the event of liquidation of the Bank.

Dividend payments have been prepared and will continue to be prepared in accordance with Brazilian Corporate Law.

Before the annual shareholders meeting, the Board of Directors may determine the payment of interim dividends out of earnings based on (i) semiannual balance sheets or earning reserves; or (ii) balance sheets issued on shorter periods, in which case the distribution of dividends shall not exceed the amount of capital reserves. These interim payments are offset against the annual mandatory dividend.

	2009			
	Thousands of *Reais*(5)	*Reais* per Thousand Shares/Units		
		Common	Preferred	Units
Interest on capital based on interim net income for the period of December 31, 2009(1)	340,000	0.9974	1.0972	n.a.
Interest on capital based on interim net income for the period of December 31, 2009(2)	285,000	0.8361	0.9197	n.a.
Intermediate Dividends for the period of December 31, 2009(3)	327,400	0.7839	0.8623	86.2271
Intercalary Dividends for the period of December 31, 2009(3)	422,600	1.0118	1.1130	111.2999
Interest on capital based on interim net income for the period of December 31, 2009(3)(4)	200,000	0.4789	0.5267	52.6738
Total in December 31, 2009	**1,575,000**			

(1) Established by Board of Directors in April 2009. Common shares – R$0.8478 and Preferred shares – R$0.9326, net of taxes.
(2) Established by Board of Directors in June 2009. Common shares – R$0.7107 and Preferred shares – R$0.7817, net of taxes.
(3) Established by Board of Directors in December 2009.
(4) Common shares – R$0.4070 and Preferred shares – R$0.4477, net of taxes, and Units R$44,7728.
(5) The amount related to the intermediate dividends, intercalary dividends and interest on capital are fully input into the mandatory dividends, which will be paid on February 22, 2010, without any additional amount for monetary for monetary correction.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

	2008			
	Thousands of *Reais*	*Reais* per Thousand Shares/Units		
		Common	Preferred	Units
Interest on capital based on interim net income for the period of December 31, 2008(1)	752,807	2.2084	2.4293	n.a.
Interest on capital based on interim net income for the period of December 31, 2008(1)	217,193	0.6372	0.7009	n.a.
Dividends from constituted reserves for the period of December 31, 2008(1)	3,045	0.0089	0.0098	n.a.
Interest on capital based on interim net income for from December, 2008(1)(2)	480,000	1.4081	1.5489	n.a.
Total in December 31, 2008	**1,453,045**			

(1) Established by Board of Directors in December 2008.
(2) Common shares – R$1.1969 and Preferred shares – R$1.3166, net of taxes.

c) Reserves

The reserves are allocated as follows after the deductions and statutory provisions, from the net income.

Legal reserve

In accordance with BR GAAP, 5% (five percent) in transferred to the legal reserve, until it reaches 20% (twenty percent) of the share capital. This reserve is designed to ensure the integrity of the capital and can only be used to offset losses or increase capital.

Capital reserve

In accordance with BR GAAP, the capital reserve is comprised for: (1) share premium paid by investors in the subscription of shares which exceeds the par value (not applicable to us), or part of the issue price of the shares without par value which exceed the amount destinated to the composition of the capital, and (2) product from the disposal of beneficiary party (not applicable to us) and subscription bonds. The capital reserve can only be used for: (1) loss absorption which exceed the retained earnings and profit reserves, (2) redemption, repayment or purchase of treasury shares, (3) redemption of beneficiary party (not applicable to the Bank), (4) incorporation of capital, or (5) payment of dividends to preferred shares in certain circumstances.

Reserve for equalization dividend

After the destination of dividends, the remaining balance if any, may, upon proposal of the Executive Board and approved by the Board of Directors, be destinated to constitute a reserve for equalization of dividends, which is limited to 50% of the Capital. This reserve aims to ensure funds for the payment of dividends, including the form of Interest on Capital, or any interim payment to maintain the flow of shareholders remuneration.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

d) Treasury shares

On February, 2009 the Bank acquired 25.395 thousands own shares for the amount R$1.948. The Extraordinary shareholders' Meeting held on August, 2009 decided the cancellation of shares of its own issuance held in treasury, without reducing capital, through the absorption of R$1,948 of the Capital Reserves account.

27. Operational Ratios

Financial institutions are required to maintain regulatory capital consistent with their activities, higher to the minimum of 11% of required capital. In July 2008 new regulatory capital measurement rules, under the Basel II Standardized Approach, went into effect, including a new methodology for credit risks and operational risks measurement, analysis and management. This ratio must be calculated on a consolidated basis, as shown below:

	2009	2008
	(Thousands of *Reais*)	
Adjusted Tier I Regulatory Capital	42,357,612	23,033,013
Tier II Regulatory Capital	9,972,644	8,504,338
Adjusted Regulatory Capital (Tier I and II)	**52,330,256**	**31,537,351**
Required Regulatory Capital	**22,483,494**	**23,527,735**
Adjusted Portion of Credit Risk	20,607,792	22,324,423
Market Risk Portions	844,882	916,186
Operational Risk Portion	1,030,820	287,126
Basel II Ratio(*)	**25.6%**	**14.7%**

(*) Calculated according to BACEN requirements, not considering goodwill effect.

Financial institutions are required to maintain investments in permanent assets compatible with adjusted regulatory capital. Funds invested in permanent assets, calculated on a consolidated basis, are limited to 50% of regulatory capital, as per prevailing regulation. On December 31, 2008, Santander exceeded the limit for investment in permanent assets, the effect, arising exclusively from the mentioned corporate restructuring, does not represent any adverse impact on the financial position of Santander and as required by prevailing regulation, a regularization plan was prepared so that said limit is met, which was approved by the regulatory agency (Bacen). On December 31, 2009, Santander qualifies for this ratio.

28. Guarantees

The Bank provides a variety of guarantees to its customers to improve their credit standing and allow them to compete. The following table summarizes at December 31, 2009 and 2008 all of the guarantees.

As required, the "maximum potential amount of future payments" represents the notional amounts that could be lost if there were a total default by the guaranteed parties, without consideration of possible recoveries from collateral held or pledged, or recoveries under recourse provisions. There is no relationship between these amounts and probable losses on these guarantees. In fact, maximum potential amount of future payments significantly exceeds inherent losses.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

	2009	2008
	(Thousands of *Reais*)	
Maximum potential amount of future payments		
Contingent liabilities:		
Guarantees and other sureties		
Financial guarantees	17,379,109	20,804,663
Performance guarantees	695,099	745,792
Financial standby letters of credit	2,189,135	3,019,320
Other	243,406	195,239
Other contingent exposures	460,621	640,296
Documentary Credits	460,621	640,296
Total Contingent Liabilities	**20,967,370**	**25,405,310**
Commitments:		
Loan commitments drawable by third parties	77,789,371	68,777,962
Other commitments	3,437,417	9,614,810
Securities placement commitments	3,437,417	9,614,810
Total Commitments	**81,226,788**	**78,392,772**
Total	**102,194,158**	**103,798,082**

Financial guarantees are provided to our clients in obligations with third parties. We have the right to seek reimbursement from our clients for any amount we shall have to pay under such guarantee. Additionally, we may hold cash or other highly liquid collateral for these obligations. These agreements are subject to the same credit evaluation performed on the execution of loans.

We expect many of these guarantees to expire without the need to advance any cash. Therefore, in the ordinary course of business, we expect that these transactions will have virtually no impact on our liquidity.

Performance guarantees are issued to guarantee customers obligations such as to make contractually specified investments, to supply specified products, commodities, or maintenance or warranty services to a third party, completion of projects in accordance with contract terms, etc. Financial standby letters of credit include guarantees of payment of loans, credit facilities, promissory notes and trade acceptances. The Bank always requires collateral to grant this kind of financial guarantees. In Documentary Credits, the Bank acts as a payment mediator between trading companies located in different countries (import-export transactions). Under a documentary credit transaction, the parties involved deal with the documents rather than the commodities to which the documents may relate. Usually the traded commodities are used as collateral to the transaction and the Bank may provide some credit facilities. Loan commitments drawable by third parties include mostly credit card lines and commercial commitments. Credit card lines are unconditionally cancelable by the issuer. Commercial commitments are mostly 1 year facilities subject to information requirements to be provided by our customers.

The risk criteria followed to issue all kinds of guarantees, financial standby letters of credit, documentary credits and any risks of signature are in general the same as those used for other products of credit risk, and therefore subject to the same admission and tracking standards. The guarantees granted on behalf of our customers are subject to the same credit quality review process as any other risk product. On a regular basis, at least once a year, the solvency of the mentioned customers is checked as well as the probability of those guarantees to be executed. In case that any doubt on the customer's solvency may arise we create allowances with charge to net income, by the amount of the inherent losses even if there is no claim to us.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

Additionally, the liability recognized as deferred revenue for the premium received for providing the above guarantees, which is being amortized into income over the life of the related guarantees is R$65,041 thousands (2008, R$58,520).

29. Interest and similar income

"Interest and similar income" in the consolidated income statement comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value; and the rectifications of income as a result of hedge accounting. Interest is recognized gross, without deducting any tax withheld at source.

The breakdown of the main interest and similar income items earned in 2009, 2008 and 2007 is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Balances with the Brazilian Central Bank	1,666,931	2,270,494	1,893,765
Loans and advances to credit institutions	2,901,054	1,818,645	701,693
Debt instruments	29,469,976	3,327,287	2,165,840
Loans and advances to customers	5,201,840	16,296,436	8,047,359
Other interest	103,155	54,952	388,711
	39,342,956	**23,767,814**	**13,197,368**

30. Interest expense and similar charges

"Interest expense and similar charges" in the consolidated income statement includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to pension funds.

The breakdown of the main items of interest expense and similar charges accrued in 2009, 2008 and 2007 is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Deposits from the Brazilian Central Bank	29,340	467	–
Deposits from credit institutions	1,179,130	1,630,639	1,362,276
Customer deposits	13,164,015	9,145,873	4,709,093
Marketable debt securities and subordinated liabilities			
Marketable debt securities (note 18)	*1,047,750*	*548,834*	*276,493*
Subordinated liabilities	*1,076,557*	*690,014*	*451,828*
Pensions (note 21)	100,567	91,437	112,619
Other interest	578,506	222,581	89,773
	17,175,865	**12,329,845**	**7,002,082**

31. Income from equity instruments

"Income from equity instruments" includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The breakdown of the balance of this item is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Equity instruments classified as:			
Financial assets held for trading	**6,714**	**7,627**	**16,089**
Of which:			
Petroquimica Uniao S.A.	*523*	*2,654*	*5,256*
Petroleo Brasileiro S.A.	*2,349*	*261*	*725*
Cia Vale do Rio Doce	*1,108*	*1,473*	*143*
Available-for-sale financial assets	**23,189**	**29,345**	**20,298**
Of which:			
Bovespa Holding S.A.	*4,192*	*11,760*	*–*
SERASA S.A.	*8,811*	*3,721*	*8,273*
BMF Bovespa S.A.	*6,522*	*–*	*–*
	29,903	**36,972**	**36,387**

32. Fee and commission income

"Fee and commission income" comprises the amount of all fees and commissions accruing in favor of the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The breakdown of the balance of this item is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Collection and payment services:			
Bills	378,519	218,979	127,514
Demand accounts	1,570,356	449,385	424,829
Cards	1,056,791	601,782	332,086
Checks and other	800,784	983,773	742,852
Orders	251,790	134,713	82,328
	4,058,241	**2,388,632**	**1,709,609**
Marketing of non-banking financial products:			
Investment funds	851,766	700,233	620,278
Insurance	794,234	643,810	428,216
Capitalization	136,144	102,185	17,902
	1,782,144	**1,446,228**	**1,066,396**
Securities services:			
Securities underwriting and placement	252,236	110,653	90,691
Securities trading	148,244	147,307	139,751
Administration and custody	129,241	64,232	22,580
Asset management	1,960	2,968	3,191
	531,681	**325,160**	**256,213**
Other:			
Foreign exchange	314,720	100,129	70,484
Financial guarantees	219,549	146,625	73,800
Other fees and commissions	241,829	402,240	187,016
	776,098	**648,994**	**331,300**
	7,148,164	**4,809,014**	**3,363,518**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

33. Fee and commission expense

"Fee and commission expense" shows the amount of all fees and commissions paid or payable by the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The breakdown of the balance of this item is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Fees and commissions assigned to third parties	485,182	351,471	129,617
Of which: Credit cards	349,874	243,946	52,643
Other fees and commissions	425,220	203,840	135,929
	910,402	**555,311**	**265,546**

34. Gains/losses on financial assets and liabilities

"Gains/losses on financial assets and liabilities" includes the amount of the valuation adjustments of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The breakdown of the balance of this item, by type of instrument, is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Held for trading(1)	2,032,272	(1,214,846)	254,128
Other financial instruments at fair value through profit or loss(2)	(10,132)	39,956	24,873
Financial instruments not measured at fair value through profit or loss	755,916	320,307	1,236,856
Of which: Available-for-sale financial assets			
Debt instruments	122,886	(15,476)	672,863
Equity instruments	559,080	260,855	547,343
Hedging derivatives and other	(61,733)	(431,530)	807
	2,716,323	**(1,286,113)**	**1,516,664**

(1) In 2009 and 2008, includes the net loss and net gain, respectively, arising from the economic hedge of the Bank's position in Cayman, which is a non-autonomous subsidiary. See note 23 for the income tax impact of such hedge.
(2) Includes the net gain arising from transactions involving debt securities, equity instruments and derivatives included in this portfolio, since the Bank manages its risk in these instruments on a global basis.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

	2009	2008
	(Thousands of *Reais*)	
Loans and advances to credit institutions	1,974,435	4,046,898
Loans and advances to customers	389,113	1,434,789
Debt instruments	12,765,008	10,105,273
Other equity instruments	16,331,550	678,993
Derivatives	4,950,006	9,295,008
	36,410,112	**25,560,961**

The detail of the amount of the liability balances is as follows:

	2009	2008
	(Thousands of *Reais*)	
Deposits from credit institutions	1,795	307,376
Customer deposits	–	–
Trading derivatives	4,401,709	11,197,268
Short positions	33,025	12,332
	4,436,529	**11,516,976**

35. Exchange differences

"Exchange differences" shows basically the gains or losses on currency dealings, the differences that arise on translations of monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

36. Other operating income and other operating expenses

These items in the consolidated income statement include:

	2009	2008	2007
		(Thousands of *Reais*)	
Revenues from insurance contracts(1)	232,976	–	–
Other operating income	189,067	379,102	631,188
Other operating expense	(355,776)	(333,831)	(448,610)
Contributions to fund guarantee of credit	(181,891)	(105,088)	(49,654)
	(115,624)	**(59,817)**	**132,924**

(1) In 2009, includes the Income from insurance related to the merger of shares of Santander Seguros as mentioned in Note 3 b.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

37. Personnel expenses

a) Breakdown

The breakdown of "Personnel expenses" is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Wages and salaries	3,363,877	2,253,313	1,483,211
Social security costs	971,245	569,136	354,220
Defined benefit pension plans (note 21)	36,534	45,060	38,477
Contributions to defined contribution pension funds	49,976	33,166	3,919
Share-based payment costs (1)	19,990	19,647	87,603
Benefits	749,366	423,218	294,158
Other personnel expenses	319,984	204,622	122,679
	5,510,972	**3,548,162**	**2,384,267**

(1) In 2007, the amount includes R$77,292 thousands related to the distribution of 100 shares to each employee that is a part of Grupo Santander (Spain), as part of the celebration of its 150 years, as approved in the Stockholders' Meeting in June 2007.

b) Share-based payments

Banco Santander Spain and Santander Brasil, likewise other companies controlled by Santander Spain Group, have remuneration programs tied to the performance of the stock market price of the its shares, based on the achievement of certain targets indicated below:

	Number of Shares	Exercise Price in Euros	Concession Year	Employees	Data of Commencement of Exercise Period	Data of Expiry of Exercise Period
Plans Outstanding at January 1 2007	**6,032,700**					
Options Granted (Plan I09)	834,332	–	2007	Managers	6/23/2007	7/31/2009
Options Granted (Plan I19)	1,243,355	–	2007	Managers	6/23/2007	7/31/2010
Options Cancelled, net (Plan I06)	(113,700)	9.09	–	Managers	1/15/2008	1/15/2009
Plans Outstanding at 31 December 2007	**7,996,687**					
Options Exercised (Plan I06)	(4,657,550)	9.09	–	Managers		
Options Granted (Plan I10)	–	–	2008	Managers		
Options Granted (Plan I11)	2,311,231	–	2008	Managers		
Plans Outstanding at 31 December 2008	**5,650,368**					
Options Cancelled (Plan I06)	*(1,261,450)*	*9.09*	*2006*	*Managers*	*1/15/2008*	*1/15/2009*
Exercised Options (Plan I09)	*(681,767)*	–	*2007*	*Managers*	*6/23/2007*	*7/31/2009*
Cancelled Options (Plan I09)	*(152,565)*	–	*2007*	*Managers*	*6/23/2007*	*7/31/2010*
Options Granted (Plan I12)	*455,008*	–	*2008*	*Managers*	*6/21/2008*	*7/31/2011*
Plans Outstanding at 31 December 2009	**4,009,594**					
Plan I10	*1,243,355*	–	*2007*	*Managers*	*6/27/2007*	*7/31/2010*
Plan I11	*2,311,231*	–	*2008*	*Managers*	*1/15/2008*	*7/31/2011*
Plan I12	*455,008*	–	*2009*	*Managers*	*7/1/2009*	*7/31/2012*

Due to the remuneration programs, daily pro rata expenses were recorded in the amount of R$19,893 (2008 – R$19,646), referring to initial costs in respective granting dates for each cycle above mentioned.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

Plan I06

In 2004, Santander Spain created a long-term incentive plan for its executives (I06), linked to the attainment of two goals related to the controlling stockholder's shares: appreciation of share price and growth of earnings per share. The conditions to receive the income were met and the variable compensation was paid from January 15, 2008 to January 15, 2009, at the price of €9.09 per stock option.

Long-Term Incentive Policy

The meeting of the Board of Directors' of Santander Spain, held on March 26, 2008, approved the long-term incentive policy intended for the executives of Banco Santander Spain and the Santander (except Banesto). This policy provides for compensation tied to the performance of the stock of Santander Spain, as established in the Annual Stockholders' Meeting.

The plans shaping the aforementioned incentive policy are as follows: (i) Performance Share Plan; and (ii) Selective Delivery Share Plan and (iii) Minimum Investment Program.

(i) Performance share plan

This multiannual incentive plan is payable in shares of Santander Spain. The beneficiaries of the plan are the executive directors and other members of senior management, together with any other Bank executives determined by the board of directors or, when delegated by it, the executive committee.

This plan involves three-year cycles for the delivery of shares to the beneficiaries. Accordingly, the first cycle lasts for two years (Plan I09) and the other cycles last for approximately three years each.

For each cycle a maximum number of shares is established for each beneficiary who remains in the Bank's employ for the duration of the plan. The targets, which, if met, will determine the number of shares to be delivered, are defined by comparing the Bank's performance with that of a benchmark group of financial institutions and are linked to two parameters, namely Total Shareholder Return (TSR) and growth in Earnings per Share (EPS).

The ultimate number of shares to be delivered will be determined in each of the cycles by the degree of achievement of the targets on the third anniversary of commencement of each cycle (with the exception of the first cycle, for which the second anniversary will be considered), and the shares will be delivered within a maximum period of seven months from the end of the cycle.

At the end of each cycle, the TSR and the EPS growth will be calculated for Santander and each of the benchmark entities and the results will be ranked from first to last. Each of the two criteria (TSR and EPS growth) will be weighted at 50% in the calculation of the percentage of shares to be delivered, based on the following scale and in accordance with Santander Spain relative position among the group of benchmark financial institutions:

Santander's Place in the TSR Ranking	Percentage of Maximum Shares to Be Delivered	Santander's Place in the EPS Growth Ranking	Percentage of Maximum Shares to Be Delivered
1º a 6º	50%	1º a 6º	50%
7º	43%	7º	43%
8º	36%	8º	36%
9º	29%	9º	29%
10º	22%	10º	22%
11º	15%	11º	15%
12th and below	0%	12th and below	0%

Any benchmark group entity that is acquired by another company, whose shares cease trading or that ceases to exist will be excluded from the benchmark group. In an event of this or any similar nature, the comparison with the benchmark group will be performed in such a way that, for each of the measures considered (TSR and EPS growth) the maximum percentage of shares will be delivered if Santander Spain ranks within the first quartile (including the 25th percentile) of the benchmark group; no shares will be delivered if Santander Spain ranks below the median (50th percentile); 30% of the maximum amount of shares will be delivered if Santander Spain is placed at the median (50th percentile). The linear interpolation method will be used for calculating the corresponding percentage for positions between the median and the first quartile (25th percentile) (neither included).

(ii) Selective delivery share plan

This plan envisages the selective delivery of shares in special circumstances relating to the hiring or retention of employees. All employees and executives, except for the Bank's executive directors, are eligible for this plan, provided that they have completed a minimum of three to four years of service at the Bank. Each participant will be entitled to receive the shares upon completion of the minimum period of service.

(iii) Fair value

The fair value of each option granted by the Bank is calculated at the grant date. In order to value Plan I06 two valuation reports were performed by two multinational investment banks. These banks used the Black-Scholes equity option pricing model considering the following parameters: the expected life of the options, interest rates, volatility, exercise price, market price and dividends of Santander Spain shares and the shares of comparable banks. The fair value of the options granted was determined by management based on the average value resulting from the two valuations.

With the exception of the share option plans which include terms relating to market conditions, the transfer terms included in the vesting conditions are not taken into account to estimate fair value. The transfer terms that are not based on market conditions are taken into account by adjusting the number of shares or share options included in the measurement of the service cost of the employee so that, ultimately the amount recognized in the consolidated income statement is based on the number of shares or share options transferred. When the transfer terms are related to market conditions, the charge for the services received is recognized regardless of whether the market conditions for the transfer are met, although the non-market transfer terms must be satisfied. The share price volatility is based on the implicit volatility scale for Santander Spain shares at the exercise prices and the duration corresponding to most of the sensitivities.

The fair value of the Performance Share Plans was calculated as follows:

- It was assumed that the beneficiaries will not leave the Bank's employ during the term of each plan.

- The fair value of the 50% linked to the Bank's relative TSR position was calculated, on the grant date, on the basis of the report provided by external valuators whose assessment was carried out using a Monte Carlo valuation model, performing 10,000 simulations to determine the TSR of each of the companies in the Benchmark Group, taking into account the variables set forth below. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

	PI09	PI10	PI11	PI12
Expected volatility(*)	16.25%	15.67%	19.31%	42.36%
Annual dividend yield based on last few years	3.23%	3.24%	3.47%	4.88%
Risk-free interest rate (Treasury Bond yield – zero coupon) over the period of the plan	4.47%	4.50%	4.84%	2.04%

(*) Calculated on the basis of historical volatility over the corresponding period (two or three years).

The application of the simulation model results in percentage values of 42.7% for PI09, 42.3% for PI10, 44.9% for PI11 and 52.42% for PI12, which are applied to 50% of the value of the options granted, in order to determine the cost per books of the TSR-based portion of the incentive. Since this valuation refers to a market condition, it cannot be adjusted after the grant date.

In view of the high correlation between TSR and EPS, it was considered feasible to extrapolate that (in a high percentage of cases) the TSR value is also valid for EPS. Therefore, it was initially determined that the fair value of the portion of the plans linked to the Bank's relative EPS position, i.e. of the remaining 50% of the options granted, was the same as that of the 50% corresponding to the TSR. Since this valuation refers to a non-market condition, it is reviewed and adjusted on a yearly basis.

c) Employee Benefit Plans

Employee Benefit Plans – The Board of Directors Meeting held on December 23, 2009, aproved and decided to submit to approval in the Extraordinary Shareholders Meeting to be held on February 3, 2010: (i) the Purchase Option Plan for Certificate of Depositary Shares ("Units"), to certain managers and managerial employees of the Bank and subsidiaries thereby, as per article 5, paragraph 4 of the Bank´s By-laws; and (ii) the Long-Term Incentive Plan – Investment in Units, the purpose of which is the payment of resources, in cash, by the Bank to certain collaborators, including managers, managerial employees and other employees of the Bank and subisidiaries thereby.

38. Other general administrative expenses

a) Breakdown

The breakdown of the balance of this item is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Property, fixtures and supplies	1,043,498	552,538	363,463
Other administrative expenses	1,307,802	841,948	509,650
Technology and systems	897,581	636,739	197,445
Advertising	497,246	404,052	274,908
Communications	612,904	457,675	251,397
Technical reports	377,331	293,122	173,404
Per diems and travel expenses	167,954	114,150	73,505
Taxes other than income tax	54,208	55,365	66,891
Surveillance and cash courier services	468,833	275,423	160,559
Insurance premiums	8,888	5,763	4,728
	5,436,245	**3,636,775**	**2,075,950**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

b) Other information

The balance of "Technical reports" includes the fees paid by the consolidated companies (detailed in the accompanying Appendix I) to their respective auditors, the detail being as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Audit of the annual financial statements of the companies audited by Deloitte (constant scope of consolidation)	6,180	6,109	3,759
Audit of the annual financial statements of the companies audited by Deloitte (additions to scope of consolidation)	373	172	–

Additionally to the expenses with audit of the financial statements, the Bank had an fee paid to Deloitte in 2009 related to the audit of the Global Offering in the amount of R$8.8 million, after taxes and was recorded as transaction cost net of capital increase.

Services provided by others audit firms totaled R$2.5 million (2008 – R$3.0 million and 2007 – R$3.5 million).

39. Gains/(losses) on disposal of assets not classified as non-current assets held for sale

The breakdown of the balance of this item is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
Gains	**3,377,953**	**19,701**	**12,759**
On disposal of tangible assets	36,161	13,162	12,759
On disposal of investments(1)	3,341,792	6,539	–
Losses	**(8,652)**	**(13,090)**	**(11,898)**
On disposal of tangible assets	(8,652)	(13,090)	(11,898)
Net gains	**3,369,301**	**6,611**	**861**

(1) In 2009, the Bank made a disposal of investment of Companhia Brasileira de Meios de Pagamentos – (VisaNet), Tecban – Tecnologia Bancária S.A. and Companhia Brasileira de Soluções e Serviços – CBSS accounting a net gain of R$3,315 million.

40. Gains/(losses) on non-current assets held for sale not classified as discontinued operations

The breakdown of the net balance of this item is as follows:

	2009	2008	2007
		(Thousands of *Reais*)	
On disposal of tangible assets	167,585	49,859	–
On impairment of tangible assets	(135,955)	(40,640)	13,470
Net gains	**31,630**	**9,219**	**13,470**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

41. Other disclosures

a) Notional amounts and market values of trading and hedging derivatives

The breakdown of the notional and/or contractual amounts and the market values of the trading and hedging derivatives held by the Bank is as follows:

	2009		2008	
	Notional Amount	Market Value	Notional Amount	Market Value
	(Thousands of *Reais*)			
Trading derivatives				
Interest rate risk and other:				
Interest rate swaps	50,761,630	12,646,099	55,901,265	15,868,331
Options – purchase and sales	181,501,740	33,762	154,139,645	(175,456)
Forward and futures contracts	32,263,081	–	43,271,519	7,788
Foreign currency risk:				
Currency swaps(1)	40,616,308	(11,648,297)	56,333,178	(17,867,750)
Options – purchase and sales	28,983,489	(333,259)	58,473,829	(1,559,102)
Forward and futures contracts	22,063,175	(150,008)	48,517,742	1,823,929
	356,189,423	**548,297**	**416,637,178**	**(1,902,260)**
Hedging derivatives				
Interest rate risk				
Futures contracts(2)	15,294,094	–	18,055,336	–
Interest rate swaps	1,249,645	153,619	1,701,594	(158,450)
	16,543,739	**153,619**	**19,756,930**	**(158,450)**
Total	**372,733,162**	**701,916**	**436,394,108**	**(2,060,710)**

(1) Includes credit derivatives, which the Bank uses to reduce or eliminate its exposure to specific risks arising from the purchase or sale of assets associated with the credit portfolio management. In 2009, the volume of credit derivatives with total return rate – credit risk received corresponds to R$655,126 thousands of cost (2008, R$697,606) and R$527,532 thousands of fair value (2008, R$696,162). In 2008 the credit risk volume transferred corresponds to R$94,852 thousands of cost and R$99,785 thousands of fair value. During the period there were no credit events related to events provided for in the contracts. Required base capital used amounted to R$7,498 thousands (2008, R$3,805).

(2) The mark-to-market effect of these cash flow hedges, with maturity that varies from January 4, 2010 to January 2, 2012, is recorded directly in equity, and at December 31, 2009 corresponded to a debit of R$262,295 (2008, R$85,917), net of taxes. The fair value of Certificate of Deposits designated as a hedged item was R$15,337,856 at December 31, 2009 (2008, R$18,308,306). No ineffective portion of such hedges, which would require recording in income, was identified during the period. Futures-DI transactions designated as hedge instrument have daily adjustments and are recorded in assets or liabilities and settle in cash daily.

The breakdown of the notional and/or contractual amounts of trading derivative by maturity is as follows:

	2009				2008
	Up to 3 months	From 3 to 12 months	Over 12 months	Total	Total
			(Thousands of *Reais*)		
Swap	30,256,852	15,792,470	45,328,616	91,377,938	112,234,443
Options	97,356,867	61,770,883	51,357,479	210,485,229	212,613,474
Forward and futures contracts	27,901,875	13,222,330	13,202,051	54,326,256	91,789,261
	155,515,594	**90,785,683**	**109,888,146**	**356,189,423**	**416,637,178**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk assumed by the Bank, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Bank basically to hedge the interest rate, underlying asset price or foreign currency risk; the results on these financial instruments are recognized under "Gains/losses on financial assets and liabilities (net)" in the consolidated income statements and increase or offset, as appropriate, the gains or losses on the investments hedged.

Additionally, in order to interpret correctly the results on the "Securities and Commodities Derivatives" shown in the foregoing table, it should be considered that these items relate mostly to securities options for which a premium has been received which offsets their negative market value. Also, this market value is offset by positive market values generated by symmetrical positions in the Bank's held-for-trading portfolio.

The Bank manages the credit risk exposure of these contracts through netting arrangements with its main counterparties and by receiving assets as collateral for its risk positions.

The detail of the cumulative credit risk exposure, by financial derivative, is as follows:

	2009	2008
	(Thousands of *Reais*)	
Securities derivatives	162,588	95,670
Currency derivatives	91,662,972	163,324,749
Interest rate derivatives	280,907,602	272,973,689
Total	**372,733,162**	**436,394,108**

b) Off-balance-sheet funds under management

The detail of off-balance-sheet funds managed by the Bank is as follows:

	2009	2008
	(Thousands of *Reais*)	
Investment funds	95,324,100	76,777,598
Assets under management	3,083,043	3,624,448
	98,407,143	**80,402,046**

c) Third-party securities held in custody

At December 31, 2009, the Bank held in custody debt securities and equity instruments totaling R$94,949,464 thousand (2008 – R$80,454,575 thousand) entrusted to it by third parties.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

d) Residual maturity periods and Average interest rates

The breakdown, by maturity, of the balances of certain items in the consolidated balance sheets is as follows:

	December 31, 2009							
	On Demand	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	After 5 Years	Total	Average Interest Rate
				(Thousands of *Reais*)				
Assets:								
Cash and balances with the Brazilian Central Bank	12,169,277	6,828,836	8,270,899	–	–	–	27,269,012	8.9%
Debt instruments	–	14,279,921	1,784,616	13,049,117	20,751,920	7,645,358	57,510,932	10.8%
Equity instruments	17,991,746	–	–	–	–	–	17,991,746	
Loans and receivables:								
Loans and advances to credit institutions	3,246,260	8,375,243	4,313,669	1,308,300	2,477,758	6,481,348	26,202,578	9.2%
Loans and advances to customer, gross	6,716,360	25,651,927	41,119,405	47,045,584	12,505,072	5,356,055	138,394,403	23.8%
	40,123,643	**55,135,927**	**55,488,589**	**61,403,001**	**35,734,750**	**19,482,761**	**267,368,671**	
Liabilities:								
Financial liabilities at amortised cost:								
Deposits from the Brazilian Central Bank	–	176,432	63,681	–	–	–	240,113	3.1%
Deposits from credit institutions	189,858	5,060,811	7,373,626	7,486,135	742,446	104,765	20,957,641	8.5%
Customer deposits	40,358,100	33,634,930	30,639,047	40,770,381	4,032,168	5,530	149,440,156	8.8%
Marketable debt securities	–	3,242,520	4,882,803	936,678	1,532,956	844,053	11,439,010	7.9%
Subordinated liabilities	–	2,104	–	–	4,330,919	6,971,422	11,304,445	9.6%
Other financial liabilities	3,650,259	6,340,210	(33,470)	249,391	(18,226)	–	10,188,164	
	44,198,217	**48,457,007**	**42,925,687**	**49,442,585**	**10,620,263**	**7,925,770**	**203,569,529**	
Difference (assets less liabilities)	**(4,074,574)**	**6,678,920**	**12,562,902**	**11,960,416**	**25,114,487**	**11,556,991**	**63,799,142**	

	December 31, 2008							
	On Demand	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	After 5 Years	Total	Average Interest Rate
	(Thousands of *Reais*)							
Assets:								
Cash and balances with the Brazilian Central Bank	10,180,498	11,570,645	1,949,357	–	–	–	23,700,500	9.7%
Debt instruments	–	5,067,650	4,254,433	14,092,854	10,826,959	5,354,568	39,596,464	14.9%
Equity instruments	1,923,483	–	–	–	–	–	1,923,483	–
Loans and receivables:								
Loans and advances to credit institutions	2,341,914	16,054,833	6,009,372	3,023,897	212,747	6,095,770	33,738,533	9.9%
Loans and advances to customer, gross	8,050,623	37,176,761	41,720,532	32,897,225	15,903,692	6,900,583	142,649,416	25.4%
	22,496,518	**69,869,889**	**53,933,694**	**50,013,976**	**26,943,398**	**18,350,921**	**241,608,396**	**19.8%**
Liabilities:								
Financial liabilities at amortised cost:								
Deposits from the Brazilian Central Bank	–	–	184,583	–	–	–	184,583	6.2%
Deposits from credit institutions	1,188,957	3,652,291	12,815,453	5,639,095	2,387,885	641,955	26,325,636	8.5%
Customer deposits	36,374,095	38,129,028	25,625,227	35,907,327	18,618,151	841,011	155,494,839	12.4%
Marketable debt securities	–	3,948,416	3,796,188	2,346,840	1,273,523	720,688	12,085,655	9.0%
Subordinated liabilities	–	6,431	103,865	–	2,407,277	6,679,856	9,197,429	13.8%
Other financial liabilities	1,997,660	4,376,111	4,338,811	(45,998)	18,588	–	10,685,172	–
	39,560,712	**50,112,277**	**46,864,127**	**43,847,264**	**24,705,424**	**8,883,510**	**213,973,314**	**11.2%**
Difference (assets less liabilities)	**(17,064,194)**	**19,757,612**	**7,069,567**	**6,166,712**	**2,237,974**	**9,467,411**	**27,635,082**	

e) Equivalent *Reais* value of assets and liabilities

The detail of the main foreign currency balances in the consolidated balance sheet, based on the nature of the related items, is as follows:

	Equivalent Value in Thousands of *Reais*			
	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Cash and balances with the Brazilian Central Bank	2,069,530	–	1,870,340	–
Financial assets/liabilities held for trading	1,981,386	1,048,742	401,283	1,091,874
Available-for-sale financial assets	713,042	–	115,480	–
Loans and receivables	15,092,956	–	13,568,903	–
Financial liabilities at amortized cost	–	17,469,224	–	31,464,106
	19,856,914	**18,517,966**	**15,956,006**	**32,555,980**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

f) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Bank are measured at fair value in the accompanying consolidated balance sheet, except for loans and receivables.

Similarly, the Bank's financial liabilities – except for financial liabilities held for trading and those measured at fair value – are measured at amortized cost in the consolidated balance sheet.

i) Financial assets measured at other than fair value

Following is a comparison of the carrying amounts of the Bank's financial assets measured at other than fair value and their respective fair values at year-end:

	2009		2008	
Assets	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
	(Thousands of *Reais*)			
Loans and receivables:				
Loans and advances to credit institutions (note 5)....	24,228,143	24,228,143	29,691,635	30,374,956
Loans and advances to customers (note 9)..............	127,934,811	128,065,076	133,033,471	127,044,873
	152,162,954	**152,293,219**	**162,725,106**	**157,419,829**

ii) Financial liabilities measured at other than fair value

Following is a comparison of the carrying amounts of the Bank's financial liabilities measured at other than fair value and their respective fair values at year-end:

	2009		2008	
Liabilities	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
	(Thousands of *Reais*)			
Financial liabilities at amortized cost:				
Deposits from the Brazilian Central Bank (note 16)..	240,113	240,113	184,583	184,583
Deposits from credit institutions (note 16)................	20,955,846	20,955,846	26,325,636	26,187,014
Customer deposits (note 17)(*)................................	149,440,156	149,448,949	155,494,839	155,173,062
Marketable debt securities (note 18).........................	11,439,010	11,435,722	12,085,655	12,009,351
Subordinated liabilities (note 19)..............................	11,304,445	11,304,445	9,197,429	9,161,607
Other financial liabilities (note 20)...........................	10,188,164	10,188,164	10,685,172	10,832,240
	203,567,734	**203,573,239**	**213,973,314**	**213,547,857**

(*) or these purposes, the fair value of customer demand deposits, which are included within customer deposits, are taken to be the same as their carrying amount.

The methods and assumptions to estimate the fair value are defined below:

- Short-term investments: The short-term investments includes the interbank deposits and the repurchase agreements. The carrying amount is approximated to the fair value.

- Loans operations – Fair value are estimated for groups of loans with similar characteristics. The fair value was measured by discounting estimated cash flow using the interest rate of new contracts.

- Deposits – The fair value of deposits was calculated by discounting the difference between the cash flows on a contractual basis and current market rates for instruments with similar maturities. For variable-rate deposits, the carrying amount was considered to approximate fair value.

- Long-tem loans – The fair value of long-term loans were estimated by cash flow discounted at the interest rate offered on the market with similar terms and maturities.

g) Other Obligations

The Bank rents properties, mainly used for branches, based on a standard contract which may be cancelled at its own criterion and includes the right to opt for renewals and adjustment clauses, classified as operating lease. Total future minimum payments of non-cancelable operating leases as of December 31, 2009 is R$1,077,586, of which R$314,250 matures in up to 1 year, R$686,885 from 1 year to up to 5 years and R$76,451 after 5 years. Payment of operating leases recognized as expenses for the period were R$304,366.

Monthly rental contracts will be adjusted on an annual basis, as per prevailing legislation, at IGPM variation. The lessee is entitled to unilaterally rescind the agreement, at any time, without paying fines, encumbrances or penalties, through a written communication to the lesser upon 30 days prior notice, without prejudice to rent payment and charges due until then.

42. Operating segments

In accordance with IFRS 8, an operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

Following such guidance, the Bank has identified the following business segments as its operating segments:

- Commercial Banking,

- Global Wholesale Banking,

- Asset Management and Insurance.

The Commercial Banking segment encompasses the entire commercial banking business (except for the Corporate Banking business managed globally using the Global Relationship Model). The Asset Management and Insurance segment includes the contribution to the Bank arising from the design and management of the investment fund, pension and insurance businesses of the various units. The Global Wholesale Banking segment reflects the returns on the Global Corporate Banking business, those on Investment Banking and Markets worldwide, including all the globally managed treasury departments and the equities business.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The condensed income statements and other significant data are as follows:

(Condensed) Income Statement	**2009** **Commercial Banking**	**Global Wholesale Banking**	**Asset Management and Insurance**	**Total**
	(Thousands of *Reais*)			
NET INTEREST INCOME	**20,260,381**	**1,766,812**	**139,898**	**22,167,091**
Income from equity instruments	29,903	–	–	29,903
Share of results of entities accounted for using the equity method	295,414	–	–	295,414
Net fee and commission income	4,969,848	863,326	404,588	6,237,762
Gains (losses) on financial assets and liabilities and Exchange differences	1,751,572	859,209	54,351	2,665,132
Other operating income/(expenses)	(280,861)	(22,540)	187,777	(115,624)
TOTAL INCOME	**27,026,257**	**3,466,807**	**786,614**	**31,279,678**
Personnel expenses	(4,971,773)	(474,295)	(64,904)	(5,510,972)
Other administrative expenses	(5,213,092)	(175,017)	(48,136)	(5,436,245)
Depreciation and amortization of tangible and intangible assets	(1,175,995)	(38,635)	(33,982)	(1,248,612)
Provisions (net)	(3,389,253)	(45,050)	(46,390)	(3,480,693)
Net impairment losses on financial assets	(9,883,382)	(83,022)	–	(9,966,404)
Net impairment losses on non–financial assets	(899,172)	–	(1,382)	(900,554)
Other non–financial gains/(losses)	3,400,931	–	–	3,400,931
PROFIT BEFORE TAX	**4,894,521**	**2,650,788**	**591,820**	**8,137,129**
Other aggregates:				
Total assets	**269,457,520**	**46,515,056**	**–**	**315,972,576**
Loans and advances to customers	95,176,323	33,147,601	–	128,323,924
Customer deposits	128,127,568	21,312,588	–	149,440,156

(Condensed) Income Statement	**2008** **Commercial Banking**	**Global Wholesale Banking**	**Asset Management and Insurance**	**Total**
	(Thousands of *Reais*)			
NET INTEREST INCOME	**10,191,650**	**1,213,502**	**32,817**	**11,437,969**
Income from equity instruments	36,972	–	–	36,972
Share of results of entities accounted for using the equity method	112,330	–	–	112,330
Net fee and commission income	3,602,255	449,289	202,159	4,253,703
Gains (losses) on financial assets and liabilities and Exchange differences	(358,011)	540,636	7,041	189,666
Other operating income/(expenses)	(21,570)	(37,782)	(465)	(59,817)
TOTAL INCOME	**13,563,626**	**2,165,645**	**241,552**	**15,970,823**
Personnel expenses	(3,104,942)	(403,671)	(39,549)	(3,548,162)
Other administrative expenses	(3,485,160)	(129,640)	(21,975)	(3,636,775)
Depreciation and amortization of tangible and intangible assets	(797,536)	(44,065)	(4,404)	(846,005)
Provisions (net)	(1,160,918)	(38,638)	(30,761)	(1,230,317)
Net impairment losses on financial assets	(4,076,108)	(23,176)	–	(4,099,284)
Net impairment losses on non–financial assets	(77,267)	–	(10)	(77,277)
Other non–financial gains/(losses)	15,830	–	–	15,830
PROFIT BEFORE TAX	**877,525**	**1,526,455**	**144,853**	**2,548,833**
Other aggregates:				
Total assets	**243,957,824**	**50,232,023**	**–**	**294,189,847**
Loans and advances to customers	106,317,159	28,151,101	–	134,468,260
Customer deposits	117,516,868	37,977,971	–	155,494,839

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

(Condensed) Income Statement	2007 Commercial Banking	Global Wholesale Banking	Asset Management and Insurance	Total
	(Thousands of *Reais*)			
NET INTEREST INCOME	**5,491,818**	**693,259**	**10,209**	**6,195,286**
Income from equity instruments	36,387	–	–	36,387
Share of results of entities accounted for using the equity method	5,884	–	–	5,884
Net fee and commission income	2,694,428	253,022	150,522	3,097,972
Gains (losses) on financial assets and liabilities and Exchange differences	944,229	950,485	3,537	1,898,251
Other operating income/(expenses)	143,362	(10,412)	(26)	132,924
TOTAL INCOME	**9,316,108**	**1,886,354**	**164,242**	**11,366,704**
Personnel expenses	(2,071,426)	(277,737)	(35,104)	(2,384,267)
Other administrative expenses	(1,963,009)	(95,500)	(17,441)	(2,075,950)
Depreciation and amortization of tangible and intangible assets	(528,960)	(43,027)	(7,759)	(579,746)
Provisions (net)	(1,192,553)	7,654	(11,513)	(1,196,412)
Net impairment losses on financial assets	(2,164,523)	5,075	11	(2,159,437)
Net impairment losses on non–financial assets	(298,085)	–	3	(298,082)
Other non–financial gains/(losses)	14,331	–	–	14,331
PROFIT BEFORE TAX	**1,111,883**	**1,482,819**	**92,439**	**2,687,141**
Other aggregates:				
Total assets	**85,783,918**	**22,535,315**	**–**	**108,319,233**
Loans and advances to customers	38,513,016	10,690,066	–	49,203,082
Customer deposits	46,720,925	8,489,533	–	55,210,458

Additionally, the Bank does not have any customers that individually accounted for 10% or greater of our interest and similar income for 2009, 2008 and 2007.

43. Related party transactions

The parties related to the Bank are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the ordinary business transactions performed by the Bank with its related parties:

a) Management compensation

i) Short-term benefits

At the stockholders meeting was defined to maximum aggregate compensation for the Board of Directors and Executive Officers the amount of R$225,554 thousands. In 2008, the management compensation, corresponds to the amount deferred in the Stockholders' Meeting of Banco Santander and the management compensation of Banco Real from August 29, 2009 totaling R$108,702.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

Board of Directors' and Executive Board's compensation:

	2009	2008	2007
		(Thousands of *Reais*)	
Fixed compensation	35,258	16,017	9,321
Variable compensation	121,490	55,421	56,160
Other	6,294	4,335	3,462
Total	**163,042**	**75,773**	**68,943**

ii) Contract termination

Employment contracts have an undefined period. The termination of the employment relationship for non-fulfillment of obligations or voluntarily does not entitle executives to any financial compensation.

iii) Other information

b) Lending operations

In conformity with prevailing regulations, financial institutions cannot grant loans or advances to:

a) any individuals or legal entities that control the institution or any entity under joint control with the institution, or any officer, member of the board of directors, member of the supervisory board, or member of the immediate family of such individuals;

b) any entity controlled by the institution; or

c) any entity in which the Bank holds, directly or indirectly, 10% or more of the capital.

Accordingly, loans or advances are not granted to any subsidiaries, associates, management (Board of directors and Directors), members of audit commitee and their families.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

c) Ownership Interest

The table below shows the direct interest (common shares and preferred shares) as of December 31, 2009 and 2008 exceeding five percent of total shares.

	December 31, 2009					
Stockholders'	Common Shares	Common Shares (%)	Preferred Shares	Preferred Shares (%)	Total Shares	Total Shares (%)
Grupo Empresarial Santander, S.L.(1)	74,967,225	35.2%	63,531,986	34.1%	138,499,211	34.7%
Sterrebeeck B.V.(1)	99,527,083	46.8%	86,492,330	46.5%	186,019,413	46.6%
Santander Seguros S/A(2)	7,241	0.0%	9,525	0.0%	16,766	0.0%
Santander Insurance Holding	4,745,084	2.2%	4,125,836	2.2%	8,870,920	2.2%
Employees	311,840	0.1%	284,366	0.2%	596,206	0.1%
Members of the Board of Directors	(*)	(*)	(*)	(*)	(*)	(*)
Members of the Executive Board	(*)	(*)	(*)	(*)	(*)	(*)
Other	33,283,259	15.7%	31,758,342	17.0%	65,041,601	16.4%
Total	**212,841,732**	**100.0%**	**186,202,385**	**100.0%**	**399,044,117**	**100.0%**

(*) None of the members of the Board of Directors and the Executive Board holds 1.0% or more of any class of shares.
(1) Companies of the Santander Spain Group.
(2) The Merger of Santander Seguros' shares, mentioned in note 2, led to mutual participation between Banco Santander and Santander Seguros, which will be eliminated within a maximum period of one year from the Extraordinary General Meeting that approved the merger of shares, in accordance with the current regulation.

	December 31, 2008					
Stockholders'	Common Shares	Common Shares (%)	Preferred Shares	Preferred Shares (%)	Total Shares	Total Shares (%)
Grupo Empresarial Santander, S.L.(1)	72,504,460	41.6%	61,391,761	40.5%	133,896,221	41.1%
Sterrebeeck B.V.(1)	99,048,194	56.8%	86,076,161	56.8%	185,124,355	56.8%
Members of the Board of Directors	(*)	(*)	(*)	(*)	(*)	(*)
Members of the Executive Board	(*)	(*)	(*)	(*)	(*)	(*)
Other	2,739,762	1.6%	3,997,945	2.7%	6,737,707	2.1%
Total	**174,292,416**	**100.0%**	**151,465,867**	**100.0%**	**325,758,283**	**100.0%**

(*) None of the members of the Board of Directors and the Executive Board holds 1.0% or more of any class of shares.
(1) Companies of the Santander Spain Group.

d) Related-Party Transactions

From time to time the Bank engages in lending and borrowing transactions to fund its operations and other miscellaneous transactions with various companies of the Santander Group, in compliance with restrictions on loans or advances imposed by Brazilian law. All such transactions with Santander Group companies were conducted on an arm's length basis on terms substantially similar to those available from other providers in the market.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

The principal transactions and balances are as follows:

	2009		2008	
	Joint-controlled companies	Related-Party	Joint-controlled companies	Related-Party
	(Thousands of *Reais*)			
Assets				
Cash and balances with the Brazilian Central Bank(1)	**–**	**295,448**	**–**	**714,127**
Banco Santander, S.A. – Spain	–	294,539	–	713,858
Other	–	909	–	269
Loans and advances to credit institutions(2)	**335,849**	**994,019**	**455,844**	**10,605,899**
Banco Santander, S.A. – Spain	–	994,019	–	3,605,118
Abbey National Treasury Services Plc	–	–	–	4,674,000
Santander Benelux, S.A., N.V.	–	–	–	2,326,781
Companhia de Crédito, Financiamento e Investimento RCI Brasil	298,095	–	380,808	–
Companhia de Arrendamento Mercantil RCI Brasil	37,754	–	75,036	–
Trading derivatives	**–**	**953,243**	**–**	**1,501,689**
Santander Benelux, S.A., N.V.	–	891,133	–	1,472,414
Santander Overseas Bank, Inc – Puerto Rico	–	–	–	28,858
Other	–	62,110	–	417
Other Assets	**218**	**142**	**111**	**125,237**
Banco Santander, S.A. – Spain	–	115	–	1,924
Santander Seguros S.A.	–	–	–	115,720
Santander Brasil Seguros S.A.	–	–	–	4,539
Santander Capitalização S.A.	–	–	–	3,054
Other	218	27	111	–
Liabilities				
Trading derivatives	**–**	**(1,037,799)**	**–**	**(1,667,390)**
Banco Santander, S.A. – Spain	–	–	–	(160,648)
Santander Benelux, S.A., N.V.	–	(957,392)	–	(1,468,981)
Santander Overseas Bank, Inc – Puerto Rico	–	–	–	(2,232)
Abbey National Plc	–	–	–	(35,529)
Abbey National Treasuty Plc	–	(24,028)	–	–
Fundo de Investimento Multimercado Santillana Cred. Privado	–	(55,891)	–	–
Other	–	(488)	–	–
Deposits from credit institutions	**(15,142)**	**(3,551,162)**	**(40,229)**	**(5,471,056)**
Banco Santander, S.A. – Spain	–	(2,705,728)	–	(4,071,725)
Santander Overseas Bank, Inc – Puerto Rico	–	–	–	(1,153,129)
Banco Español de Crédito, S.A. – Banesto	–	–	–	(240,852)
Grupo Banesto: Sociedades consolidables	–	(157,283)	–	–
Abbey National Treasury Services Plc	–	(387,616)	–	–
Fundo de Investimento Multimercado Santillana Cred. Privado	–	(192,139)	–	–
Fundo de Investimento Multimercado Menorca Crédito Privado	–	(106,490)	–	–
Companhia de Arrendamento Mercantil RCI Brasil	(2,626)	–	(25,589)	–
Other	(12,516)	(1,906)	(14,640)	(5,350)
Customer deposits	**–**	**(1,832)**	**(85,198)**	**(120,400)**
Produban Serviços de Informática S.A.	–	–	–	(35,438)
Santander Seguros S.A.	–	–	–	(8,094)
ISBAN S.A.	–	–	–	(73,153)
Cia Brasileira de Soluções e Serviços – CBSS	–	–	(67,225)	–
Celta Holdings Ltda	–	–	(1,686)	–
Tecnoligia Bancária – TECBAN	–	–	(16,280)	–
Other	–	(1,832)	(7)	(3,715)
Subordinated liabilities	**–**	**(1,667,219)**	**–**	**–**
Banco Santander, S.A. – Spain	–	(1,667,219)	–	–
Other Liabilities – Dividends and Bonuses Payable	**–**	**(1,392,079)**	**–**	**(1,352,252)**
Grupo Empresarial Santander, S.L.	–	(570,414)	–	(567,344)
Santander Insurance Holding, S.L.	–	(81,701)	–	–
Sterrebeeck B.V.	–	(739,683)	–	(784,892)
Others	–	(281)	–	(16)
Other Payables	**–**	**(9,266)**	**(7,925)**	**(40,534)**
Banco Santander, S.A. – Spain	–	(9,266)	–	(12,075)
Ingeniería de Software Bancario, S.L	–	–	–	(14,479)
ISBAN S.A.	–	–	–	(6,368)
Altec, S.A. – Chile	–	–	–	(4,395)
Produban Serviços de Informática S.A.	–	–	–	(3,084)
Other	–	–	(7,925)	(133)

(1) Comprised of cash balances that did not bear interest.
(2) All loans to related parties were made in our ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectiability or present other unfavorable features.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

Income				
Interest and similar income – Loans and advances to credit institutions	**40,034**	**4,950**	**6,167**	**33,348**
Banco Santander, S.A. – Spain	–	2,463	–	23,911
Abbey National Treasury Services Plc	–	2,487	–	9,437
Companhia de Crédito, Financiamento e Investimento RCI Brasil	33,674	–	3,947	–
Companhia de Arrendamento Mercantil RCI Brasil	6,360	–	2,220	–
Interest expense and similar charges – Customer deposits	**(7,233)**	**(12,039)**	**(8,153)**	**(10,374)**
Produban Serviços de Informática S.A.	–	–	–	(2,654)
ISBAN S.A.	–	–	–	(7,445)
Fundo de Investimento Multimercado Menorca Crédito Privado	–	(11,940)	–	–
Companhia de Arrendamento Mercantil RCI Brasil	(6,379)	–	(8,153)	–
Other	(854)	(99)	–	(275)
Interest expense and similar charges – Deposits from credit institutions	**(400)**	**(125,466)**	**–**	**(552,897)**
Banco Santander, S.A. – Spain	–	(100,574)	–	(439,379)
Santander Overseas Bank, Inc – Puerto Rico	–	(9,062)	–	(50,406)
Banco Español de Crédito, S.A. – Banesto	–	–	–	(12,263)
Banco Santander, S.A. – Chile	–	–	–	(50,838)
Grupo Banesto: Sociedades consolidables	–	(1,131)	–	–
Abbey National Treasury Services Plc	–	(1,869)	–	–
Cia Brasileira de Soluções e Serviços – CBSS	–	(4,821)	–	–
Fundo de Investimento Multimercado Santillana Cred. Privado	–	(7,922)	–	–
Companhia de Crédito, Financiamento e Investimento RCI Brasil	(400)	–	–	–
Other	–	(87)	–	(11)
Gains/losses on financial assets and liabilities	**–**	**(468,098)**	**–**	**(675,087)**
Banco Santander, S.A. – Spain	–	–	–	(295,815)
Santander Benelux, S.A., N.V.	–	(320,972)	–	(349,805)
Santander Overseas Bank, Inc – Puerto Rico	–	(6,001)	–	24,145
Fundo de Investimento Multimercado Menorca Crédito Privado	–	46,023	–	–
Fundo de Investimento Multimercado Santillana Cred. Privado	–	(182,833)	–	–
Other	–	(4,315)	–	(53,612)
Other income expenses	**6,861**	**(188,209)**	**–**	**(175,929)**
Banco Santander, S.A. – Spain	–	(83,843)	–	15,511
Santander Seguros S.A.	–	(475)	–	1,078
Santander Capitalização S.A.	–	13,351	–	35,054
ISBAN S.A.	–	–	–	(95,552)
Altec, S.A. – Chile	–	(7,805)	–	(2,837)
Aquanima Brasil Ltda.	–	(22,239)	–	(16,095)
Ingeniería de Software Bancario, S.L.	–	(24,900)	–	(19,857)
Santander Investment Securities Inc.	–	(44,757)	–	–
Companhia de Crédito, Financiamento e Investimento RCI Brasil	6,134	–	–	–
Other	727	(17,541)	–	(93,231)
Gains on disposal of assets not classified as non-current assets held for sale	–	**2,376,460**	–	–
Santusa Holding, S.L.	–	2,376,460	–	–

44. Risk management

Risk management at the Santander Brazil follow that same principles that are set at the Group level:

- Independence of the risk function with respect to the business. The head of the Bank's Risk Division, reports directly to the executive committee and the board. The local risk unit keeps its independence with a direct report to the Corporate risk Unit.

- Commitment to supporting the business by contributing, without undermining the preceding principle, to the achievement of commercial objectives whilst safeguarding risk quality. To this end, the risk organizational structure is adapted to the commercial structure so as to encourage cooperation between business and risk managers.

- Collective decisions (even at branch level), which ensure that different opinions are taken into account and avoid situations in which decisions are taken individually.

- Well-established tradition of using internal rating and scoring tools, return on risk-adjusted capital (RORAC), value-at-risk (VaR), economic capital, extreme scenario analyses, etc.

- Global approach, achieved by addressing on an integrated basis all the risk factors in all the business units and geographical locations, and using the concept of economic capital as a consistent measure of the risk assumed and as the basis for assessing the management performed.

- Desire to continue to target a medium-low risk profile, emphasizing its low volatility and its predictability, by:

  – seeking to achieve a high degree of risk diversification, thus limiting risk concentration on particular customers, groups, sectors, products or geographical locations;

  – maintaining a low level of complexity in Markets operations;

  – paying ongoing attention to risk monitoring in order to prevent potential portfolio impairment sufficiently in advance.

At Santander Brazil, the risk management and control process has been structured using as reference the framework defined at corporate level and described according to the following phases:

- Adaptation of corporate risk management frameworks and policies that reflect Santander's risk management principles.

Santander Brazil adopts a series of risk policies and procedures that constitute its regulatory framework, which, taking the form of circulars, frameworks (formerly the Risk Management Policy Manuals) and operating rules, regulates the risk activities and processes.

Within this regulatory framework, the Corporate Risk Management Framework, approved by Senior Management (Risks), regulates the principles and standards governing the general modus operandi of the Santander Brazil´s risk activities, based on the corporate organizational and a management models. One of the main characteristics of this Corporate Risk Management Framework is that it leads to the regulation, through a series of more specific corporate frameworks, of the functions reporting to the Risk Unit.

The organizational model comprises the management map, the risk function and governance, and the regulatory framework itself. The management model contains the basic pillars for risk management, the channels for the planning and setting of targets, the budgeting and risk limit setting process, the control of operations, the framework for risk reporting to senior management and the technological reference model for risk management.

- Identification of risks, through the constant review and monitoring of exposures, the assessment of new products and businesses and the specific analysis of singular transactions;

- Measurement of risks using extensively tested methods and models;

- Preparation and distribution of a complete set of reports that are reviewed daily by the heads at all levels of Santander management;

Implementation of a risk control system which checks, on a daily basis, the degree to which Santander Brazil´s risk profile matches the risk policies approved and the risk limits set. The most noteworthy corporate tools and techniques (abovementioned) already in use in Santander Bank are in different stages of maturity regarding the level of implementation and use in Santander Brazil. For wholesale segment, these technics are quite in line with the corporate level development. For local segments, internal ratings and scorings based models, VaR and market risk scenario analysis and stress testing have been already embbebed in risk management routine while Expected loss, Economic Capital and RORAC have been recently started.

- Internal ratings- and scorings-based models which, by assessing the various qualitative and quantitative risk components by customer and transaction, make it possible to estimate, firstly, the probability of default and, subsequently, the expected loss, based on LGD estimates.

- Economic capital, as a homogeneous measure of the risk assumed and a basis for the measurement of the management performed.

- RORAC, which is used both as a transaction pricing tool (bottom-up approach) and in the analysis of portfolios and units (top-down approach).

- VaR, which is used for controlling market risk and setting the market risk limits for the various trading portfolios.

- Scenario analysis and stress testing to supplement market and credit risk analyses in order to assess the impact of alternative scenarios, even on provisions and capital.

Santander Brazil intends to use the internal Models for the calculation of regulatory capital and for this has agreed a timetable with the home supervisor. This plan is currently under revision due to the Banco Real´s acquirement. Notwithstanding, the Santander Brazil has defined a Basel2 governance structure and has assigned for this purpose, all the human and technology resources necessary to meet the stringent requirements established by the Bank of Spain, the supervisory authority responsible for the validation of these internal models in the Santander Group. It is also important to mention that this Basel2 governance structure is also responsible to incorporate the local regulator requirements and assures the compliance with these requirements.

I. CORPORATE GOVERNANCE OF THE RISK FUNCTION

The risk committee framework for Santander Brazil is set based on corporate risk standards. The executive risk committees have their level of approvals delegated by the risk committee at Santander Bank, an executive body that adopts decisions within the scope of the powers delegated by the board, is presided over by the third deputy chairman of the Banco Santander and also comprises a further four directors of the Bank. The Executive committees are responsible for ensuring that the local risk policies are implemented and ensures that the Santander Brazil's activities are consistent with its risk tolerance level for the main risk exposures approved by Banco Santander. Those exposures are systematically reviewed and presented to these committees that also decide upon any transactions that exceed the powers delegated to lower-ranking bodies. The executive risk committee is also responsible for advising the Group Risk Committee about the proposals that exceed its level of approval.

The executive risk committees take place on weekly basis evidencing the importance that the Santander Brazil attaches to the proper management of its risks.

The responsibilities assigned to the executive risk committee are essentially as follows:

- To ensure to the Senior Management of the Bank, that the local policies are implemented and followed in accordance with the corporate standards including:
  - The various types of risk (financial, operational, technological, legal and reputational, inter alia) facing the Bank;
  - The information and internal control systems to be used to control and manage these risks;
  - The level of risk deemed acceptable by the Bank;
  - The measures envisaged to mitigate the impact of the identified risks in the event that they materialize.
  - To conduct systematic reviews of the Bank's exposure to its main customers, economic activity sectors, geographical areas and types of risk.
- To authorize the local management tools and risk models and ascertain the result of their internal validation.
- To ensure that the Santander Brazil´s actions are consistent with the level of risk tolerance previously approved at group level.
- To be informed of, assess and follow any remarks and recommendations that may be periodically made by the supervisory authorities in discharging their function.
- To resolve transactions outside the powers delegated to lower-ranking bodies and the overall limits for pre-classified risk categories in favor of economic groups or in relation to exposure by type of risk.

The executive risk committee has delegated certain of its powers to risk committees which are structured by, business line, type and segment of risk. The risk function at the Santander Brasil is performed through an Executive Risk Unit, which is independent from the business areas from both a hierarchical and a functional standpoint. This Executive Risk Unit directly reports to the CEO of the Santander Brazil and to the Head of Risk of Santander Bank.

In Santander Brazil the Executive Risk Unit has divided into two blocks:

- A control and methodology structure, which adapts the risk policies, methodologies and control systems and consists of several units organized by type of risk (solvency, market risks and methodology).
- A business structure, centered on the performance and management integration of the risk function in the Santander Brazil´s retail, corporate and wholesale businesses. There are specific areas for each of these businesses, a Collection area and a socio environmental risk analysis area.

Additionally, there is a specific area named "Governance and Regulation", which is responsible for assuring that the risk governance model works and that it is adherent to the local and international regulation.

Santander Brazil follows the same risk policy of Banco Santander Spain that is oriented towards maintaining a predictable medium-low risk profile, as regards both credit and market risks. Following is an analysis of the Bank's main types of risk: credit, market, operational and reputational risks.

II – CREDIT RISK

1. Introduction to the treatment of credit risk

Credit risk is the exposure to loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Bank. Credit Risk management seeks to provide credit to help in defining strategies, in addition to setting limits, including review of exhibitions and trends as well the effectiveness of credit policy.

The specialization of the Bank's risk function is based on the type of customer and, accordingly, a distinction is made between individualized customers and standardized customers in the risk management process:

- Individualized customers are defined as those to which a risk analyst has been assigned, basically because of the risk assumed. This category includes wholesale banking customers, financial institutions and certain enterprises belonging to retail banking. Risk management is performed through an analysis supplemented by decision-making support tools based on internal risk assessment models.

- Standardized customers are those which have not been expressly assigned a risk analyst. This category generally includes individuals, individual entrepreneurs, and retail banking enterprises not classified as individualized customers. Management of these risks is based on internal risk assessment and automatic decision-making models, supplemented subsidiarily, when the model is not comprehensive enough or is not sufficiently accurate, by teams of analysts specializing in this type of risk.

2. Main aggregates and variations

The profile of the credit risk assumed by the Bank is characterized by a diversified geographical distribution and the prevalence of retail banking operations.

a) Map of credit risk – 2009

The following table shows the map of credit risk, expressed in nominal amounts (with the exception of exposure in derivatives and repos, which is expressed in credit risk equivalent), to which the Bank was exposed at December 31 2009 (in thousands of *Reais*).

BANCO SANTANDER - GROSS CREDIT RISK EXPOSURE AS OF DECEMBER 31, 2009								
Customer Draw-Downs (1)	Drawable by customers	Sovereign Fixed Income (Excl. Trad)	Private Fixed Income (Excl. Trad)	Credit Institutions Drawdowns	Drawable by Credit Institutions	Derivatives and Repos (CRE)	Total	Change/ Dez 08
159.361.775	77.789.371	41.987.587	3.043.193	36.437.270	-	13.972.122	332.591.318	107,50%

(1) it refers to the gross portfolio in the amount of R$138,394,405 thousand plus the balance of guarantees in the amount of R$20,967,370 thousand.
Data as December 31, 2009.
CRE (Credit Risk Equivalent: net replacement value plus maximum potential value. Includes credit risk mitigants).
Balances drawn down by customers exclude repos.
Balances with credit institutions (excluding repos and trading portfolio) include R$23,638,345 thousand of deposits at the Brazilian Central Bank.

b) Variations in main aggregates in 2009

The international financial turmoil, initiated in 2nd semester of 2008, had negatively impacted the steady growing of credit risk portfolio observed over the last years in Brazilian financial market. The economic effects such as demand restrictions, decrease on industrial production, unemployment growth and consumption downturn, brought severe restrictions to credit offer and quality deterioration of the existing credit portfolio.

Brazilian Government had adopted two main measures in order to contain the crisis impacts in the credit market, such as, funding maintenance for medium banks and incentive for public banks to increase the credit offer on the local market. As a result, the credit grew 15% on 2009, which represents half of the last year's growth. Notwithstanding as the last default rates has shown that the credit portfolio quality improved in the last quarter, one can expect better results and optimistic estimates for 2010.

Santander Brazil had proactively acted in twofold ways. From a portfolio perspective, all the credit admission policies were reviewed in order to become more restricted, whilst allowing the choice of clients with profile closer to the corporate credit risk policy.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

Once identified signs of enhancements on economic scenario and on Group client's profile, Santander increased stimulation to credit, as kept active on cases that demand special attention, offering individualized products, such as "Cheque Essencial", which intends to offer the best between overdraft and installment loans. Santander credit operations grew close to private banks. Default rates increased strongly on 1st semester, reached the highest level on 3rd quarter, and began to fall during the 4th quarter, reaching figures closer to those before the world crisis. Santander increased share on individuals and mortgage to individuals volumes.

Credit Risk Exposure to Customers (*) (Thousands of Reais)		Non-Performing Loans Ratio (%)		Impairment Coverage Ratio (%)		Specific Credit Loss Provisions, Net of RAWO (**) (Thousands of Reais)		Cost of Credit (1) (% of Risk)	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
159.361.775	164.695.074	6,21	4,69	101,7	105,8	10.070.479	8.181.156	7,24	4,45

Data prepared on the basis of management criteria. Memorandum item Spain for 2009, on basis of controller's unit accounting criteria.
(*) Includes gross loans and advances to customers, guarantees and documentary credits.
(**) RAWO = Recoveries of Assets Written Off.

c) Distribution of credit risk

The Bank is well diversified within segments and products and concentrates its activities on its core markets. Retail business represents 57% and non-retail 43% of total credit assets.

3. Measures and measurement tools

a) Rating tools

Santander has used proprietary internal rating models to measure the credit quality of a given customer or transaction. Each rating relates to a certain probability of default or non-payment, determined on the basis of the Entity's historical experience, with the exception of certain portfolios classified as "low default portfolios". More than 50 internal rating models are used in the Bank's loan approval and risk monitoring process.

Global rating tools are applied to the sovereign risk, financial institutions and global wholesale banking segments. Management of these segments is centralized at Bank level, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's judgment.

For the corporate and individualized institutions segments, the Parent of the Santander Bank has defined a single methodology for the construction of a rating system in each country, based on the same modules as the above-mentioned ratings: a quantitative or automatic module (analyzing the credit performance of a sample of customers and the correlation with their financial statements), a qualitative or analyst judgment module, and final reviews.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

For standardized customers, both legal entities and individuals, the Bank has scoring tools that automatically assign a score to the proposed transactions.

These loan approval systems are supplemented by performance rating models. These tools provide enhanced predictability of the risk assumed and are used for preventive and marketing activities.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

b) Credit risk parameters

The estimates of the risk parameters (PD and LGD) should be based on internal experience, i.e. on default observations and on the experience in defaulted loan recoveries.

For low portfolios, such as banks, sovereign risk or global wholesale banking, the parameters are based on CDS market data and with global broadness, using Santander's world presence.

For the other portfolios, parameter estimates are based on the Bank's internal experience. In retail portfolios, the internal rating is estimated based on models that use client behavior data and available external bureau information; PDs are then calculated based on default rates, which is defined as 90 days past due.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account not only the income and expenses associated with the recovery process, but also the timing thereof and the indirect costs arising from the recovery process.

The estimated parameters are then assigned to performing, i.e. non-defaulted, loans. For low-default portfolios, which are managed globally, the assignment process follows the same patterns in all Santander units.

By contrast, the retail portfolios have specific scoring systems in each of the Bank's units, which require the development of separate estimates and the assignation of parameters in a particular manner in each case.

c) Master rating scale

In order to achieve equivalent internal ratings in the different models available –corporate, sovereign risk, financial institutions and other segments– and to make them comparable with the external ratings of rating agencies, the Bank has a so-called master rating scale.

The equivalence is established through the probability of default associated with each rating. Internally calibrated PDs are compared against the default rates associated with the external ratings, which are published periodically by rating agencies.

		Equivalence with	
Internal rating	Probability of Default	Standard & Poor's	Moody's
9,3	0,017%	AAA	Aaa
9,2	0,018%	AA+	Aa1
9,0	0,022%	AA	Aa2
8,5	0,035%	AA-	Aa3
8,0	0,06%	A+	A1
7,5	0,09%	A	A2
7,0	0,14%	A-	A3
6,5	0,23%	BBB+	Baa1
6,0	0,36%	BBB	Baa2
5,5	0,57%	BBB-	Baa3
5,0	0,92%	BB+	Ba1
4,5	1,46%	BB	Ba2
4,0	2,33%	BB/BB-	Ba2/Ba3
3,5	3,71%	BB-/B+	Ba3/B1
3,0	5,92%	B+/B	B1/B2
2,5	9,44%	B	B2
2,0	15,05%	B-	B3
1,5	24,00%	CCC	Caa1
1,0	38,26%	CC/C	Caa1/Caa2

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

d) Distribution of EAD and associated EL

The table below details the distribution, by segment, of the credit risk exposure in terms of EAD. Approximately 60% of total risk exposure to customers (excluding sovereign and counterparty risk and other Assets) relates to the SME and individuals financing segments, which reflects the commercial orientation of the Santander Bank's business and risks. The expected loss arising from customer exposure is 7,3% of total credit exposure of the Bank (excluding sovereign, counterparty risk and other Assets), which reflects the crisis consequences and effects in the global market.

	Segmentation of credit risk exposure				
	EAD (millions of reais)	%	Average PD (%)	Average LGD (%)	EL
Public sector	966	0,8	3,05	74,60	22
Corporate	44.928	35,0	3,95	19,12	361
SMEs	20.311	15,8	9,23	69,16	1.283
Mortgage loans to individuals	5.116	4,0	2,27	40,00	47
Consumer loans to individuals	47.873	37,3	10,00	67,39	2.656
Credit cards – individuals	7.751	6,0	4,29	68,30	227
Other assets	1.528	1,2	-	-	1
Total	**128.474**	**100,0**	**5,15**	**31,06**	**4.596**

Data at December 2009.
Excluding doubtful assets/non-performing loans.

4. Observed loss: measures of cost of credit

To supplement the use of the advanced models described above (see related data in the "Economic Capital" section), other habitual measures are used to facilitate prudent and effective management of credit risk based on observed loss.

The cost of credit risk at the Bank is measured using different approaches: variation in non-performing loans in the recovery process (ending doubtful assets – beginning doubtful assets + assets written off – recovery of assets written off), net credit loss provisions (provisions to specific allowances – recovery of assets written off); and net assets written off (assets written off – recovery of assets written off).

5. Credit risk cycle

The risk management process consists of identifying, measuring, analyzing, controlling, negotiating and deciding on, as appropriate, the risks incurred in the Bank's operations. The parties involved in this process are the risk taking areas, senior management and the risk function.

The process begins at senior management level, through the board of directors and the risk committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale:

- Pre-sale: this phase includes the risk planning and target setting processes, determination of the Bank's risk appetite, approval of new products, risk analysis and credit rating process, and limit setting.

- Sale: this is the decision-making phase for both pre-classified and specific transactions.

- Post-sale: this phase comprises the risk monitoring, measurement and control processes and the recovery process.

a) Risk limit planning and setting

Risk limit setting is a dynamic process based on the Bank's risk appetite by assessing business proposals for credit portfolios, Wholesale clients and Treasury business. Credit limits are approved by the Executive Board, though a global risk limit plan.

For clients individualized risks, individual limits are established (pre-classification) which defines the maximum acceptable credit level for this client and minimum capital return based on the allocated capital.

In the case of risks from Retail credit portfolio, the risk limits are registered through credit management programs (PGC, using the Spanish acronym), a document that includes details of each portfolio, such as target population, product commercial conditions, admission and recovery policies, and risk return analysis.

b) Risk analysis and credit rating process

Risk analysis is a pre-requisite for the approval of loans to customers by the Bank. This analysis consists of examining the counterparty's ability to meet its contractual obligations to the Bank, which involves analyzing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

The risk analysis is conducted yearly, at least, and can be held shortly when client profile indicates (through systems with centralized alerts, managers visits to clients or specific credit analysis), or when operations are not covered by pre-classification.

c) Transaction decision-making

The purpose of the transaction decision-making process is to analyze transactions and adopt resolutions thereon, taking into account the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

Since 1993 the Bank has been using, among others, the RORAC (return on risk-adjusted capital) methodology for the risk analysis and pricing in the decision-making process on transactions and deals.

d) Risk monitoring and control

In addition to the tasks performed by the Internal Audit Division, the Risk Unit has a specific risk monitoring function for adequate credit quality control, which consists of local and global teams to which specific resources and persons in charge have been assigned.

This monitoring function is based on an ongoing process of permanent observation to enable early detection of any incidents that might arise in the evolution of the risk, the transactions, the customers and their environment, and the adoption of mitigating actions. The risk monitoring function is specialized by customer segment.

For this purpose a system called "special surveillance firms" (FEVE, using the Spanish acronym) has been designed that distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a company in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for this company, to place a person in charge and to set the policy implementation period. Customers classified as FEVE are revised at least every six months, or every three months for those classified in the most severe categories. A company is classified as FEVE as a result of the monitoring process itself, a review performed by Internal Audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to standardized customers, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts contained in the credit management programs.

Risk control function

Supplementing the management process, the risk control function obtains a global view of the Bank's loan portfolio, through the various phases of the risk cycle, with a level of detail sufficient to permit the assessment of the current situation of the risk process, its qualities and any changes therein.

Any changes in the Bank's risk exposure are controlled on an ongoing and systematic basis against budgets, limits and benchmarks, and the impacts of these changes in certain future situations, both of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures that place the profile and amount of the loss portfolio within the parameters set by the Bank.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product and process, thus facilitating the detection of specific areas warranting action and for which decisions have to be taken.

6. Credit risk from other standpoints

Certain areas and/or specific views of credit risk deserve specialist attention, complementary to global risk management.

a) Concentration risk

Concentration risk is an essential factor in the area of credit risk management. The Bank constantly monitors the degree of concentration of its credit risk portfolios, by geographical area/country, economic sector, product and customer group.

The risk committee establishes the risk policies and reviews the exposure limits required to ensure adequate management of credit risk portfolio concentration.

From the sectorial standpoint, the distribution of the corporate portfolio is adequately diversified.

The Bank's Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitization transactions, in order to optimize the risk/return ratio of the total portfolio.

b) Credit risk from financial market operations

This heading includes the credit risk arising in treasury operations with customers, mainly credit institutions. These operations are performed both via money market financing products with different financial institutions and via derivative instruments arranged for the purpose of serving our customers.

Risk control is performed using an integrated, real-time system that enables the Bank to know at any time the unused exposure limit with respect to any counterparty, any product and maturity and at any Bank unit.

Credit risk is measured at its current market value and its potential value (exposure value considering the future variation in the underlying market factors). Therefore, the credit risk equivalent (CRE) is defined as the sum of net replacement value plus the maximum potential value of the contracts in the future.

c) Environmental risk

The environmental risk analysis of credit transactions is one of the main features of the Strategic Corporate Social Responsibility Plan. The analysis is founded on two major cornerstones:

The Equator Principles: an initiative of the International Finance Corporation of the World Bank. These principles constitute an international standard for the analysis of the social and environmental implications of project finance transactions. Banco Santander adheres to these principles and its management incorporates the analysis and assessment of the social and environmental risks of projects financed in developing countries.

The VIDA tool: implemented since 2004, the main aim of this tool is to assess the environmental risk of both current and potential customer companies, using a system that classifies each of the companies into one of seven categories, depending on the degree of environmental risk incurred.

Currently the Bank is implementing the environmental and social risk management system for Santander's operations in Brazil that had previously been in place at Banco Real. Under this system, borrowers are screened for environmental and social problems, such as contaminated land, deforestation, slave labor and other major environmental and social issues for which there are potential penalties. In 2008, Banco Real screened approximately 5,000 corporate clients for these types of risks. A specialized team of biologists and geologists monitors the customers' environmental practices, and a team of financial analysts studies the likelihood of damages that unfavorable environmental conditions may cause to our customers' financial condition and collateral, among other effects. This monitoring activity also aims to preserve our reputation in the market.

III. MARKET RISK

III.1 Activities subject to market risk

The measurement, control and monitoring of the market risk area comprises all operations in which net worth risk is assumed. This risk arises from changes in the risk factors –interest rate, exchange rate, equities, commodity prices and the volatility thereof– and from the solvency and liquidity risk of the various products and markets in which the Bank operates.

The activities are segmented by risk type as follows:

1. Trading: this item includes financial services for customers, trading operations and positioning mainly in fixed-income, equity and foreign currency products.

2. Balance sheet management: A risk management assessment aims to give stability to interest income from the commercial and economic value of the Bank, maintaining adequate levels of liquidity and solvency. The risk is measured by the balance sheet exposure to movements in interest rates and level of liquidity.

3. Structural risks:

    a. Structural foreign currency risk/hedges of results: foreign currency risk arising from the currency in which investments in consolidable and non-consolidable companies are made (structural exchange rate). This item also includes the positions taken to hedge the foreign currency risk on future results generated in currencies other than the Real (hedges of results).

    b. Structural equities risk: this item includes equity investments in non-consolidated financial and non-financial companies that give rise to equities risk.

The Treasury area is responsible for managing the positions taken in the trading activity.

The Financial Management area is responsible for managing the balance sheet management risk and structural risks centrally through the application of uniform methodologies adapted to the situation of each market in which the Bank operates. Thus, in the convertible currencies area, Financial Management directly manages the Parent’s risks and coordinates the management of the other units operating in these currencies. Decisions affecting the management of these risks are taken through the ALCO committees in the respective countries and, ultimately, by the Parent’s markets committee.

The aim pursued by Financial Management is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Bank’s economic value, whilst maintaining adequate liquidity and solvency levels.

Each of these activities is measured and analyzed using different tools in order to reflect their risk profiles as accurately as possible.

III.2 Methodologies

Trading

The Bank calculates trading market risk capital requirement using a standard model provided by Brazilian Central Bank.

The standard methodology applied to trading activities by the Santander Bank in 2009 was value at risk (VaR), which measures the maximum expected loss with a given confidence level and time horizon. This methodology was based on a standard historical simulation with a 99% confidence level and a one-day time horizon. Statistical adjustments were made to enable the swift and efficient incorporation of the most recent events that condition the level of risk assumed.

Specifically, the Bank uses a time window of two years or 520 daily data obtained retrospectively from the reference date of the VaR calculation. Two figures are calculated each day, one by applying an exponential decline factor which gives a lesser weighting to more distant observations in time, and another with uniform weightings for all observations. The VaR reported is the higher of these two figures.

VaR is not the only measure. It is used because it is easy to calculate and because it provides a good reference of the level of risk incurred by the Bank. However, other measures are simultaneously being implemented to enable the Bank to exercise greater risk control in all the markets in which it operates.

One of these measures is scenario analysis, which consists of defining behavior scenarios for various financial variables and determining the impact on results of applying them to the Bank's activities. These scenarios can replicate past events (such as crises) or, conversely, determine plausible scenarios that are unrelated to past events. A minimum of three types of scenarios are defined (plausible, severe and extreme) which, together with VaR, make it possible to obtain a much more complete spectrum of the risk profile.

The positions are monitored daily through an exhaustive control of changes in the portfolios, the aim being to detect possible incidents and correct them immediately. The daily preparation of an income statement is an excellent risk indicator, insofar as it allows us to observe and detect the impact of changes in financial variables on the portfolios.

Lastly, due to their atypical nature, derivatives and credit trading management (actively traded credit – Trading Book) activities are controlled by assessing specific measures on a daily basis. In the case of derivatives, these measures are sensitivities to fluctuations in the price of the underlying (delta and gamma), in volatility (vega) and in time (theta). For credit trading management activities, the measures controlled include sensitivity to spread, jump-to-default and position concentrations by rating level.

With respect to the credit risk inherent in the trading portfolios (Credit Trading portfolios), and in keeping with the recommendations made by the Basel Committee of Banking Supervision, an additional measure has been introduced, the Incremental Default Risk (IDR), in order to cover the default risk which is not properly captured in the VaR, through the variation of the related market prices of credit spreads. The instruments affected are basically fixed-income bonds, derivatives on bonds (forwards, options, etc.) and credit derivatives (credit default swaps, asset-backed securities, etc.). The method used to calculate the IDR, is defined globally at Group level.

Balance-sheet management

Interest rate risk

The Bank analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Bank to control interest rate risk in these activities are the interest rate gap, the sensitivity of net interest margin (NIM) and market value of equity (MVE) to changes in interest rates, the duration of capital, value at risk (VaR) and scenario analysis.

a) Interest rate gap of assets and liabilities

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk in the various maturities to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. The duration and sensitivity of aggregates that do not have a contractual maturity date are analyzed and estimated using an internal model.

b) Net interest margin (NIM) sensitivity

The sensitivity of the net interest margin measures the change in the expected accruals for a specific period (12 months) given a shift in the interest rate curve.

The sensitivity of the net interest margin is calculated by simulating the margin both for a scenario of changes in the interest rate curve and for the current scenario, the sensitivity being the difference between the two margins so calculated.

c) Market value of equity (MVE) sensitivity

The sensitivity of the market value of equity is a complementary measure to the sensitivity of the net interest margin.

This sensitivity measures the interest rate risk implicit in the market value of equity based on the effect of changes in interest rates on the present values of financial assets and liabilities.

d) Value at risk (VaR)

The value at risk for balance sheet aggregates and investment portfolios is calculated by applying the same standard as that used for trading: historical simulation with a confidence interval of 99% and a one-day time horizon. Statistical adjustments were made to enable the swift and efficient incorporation of the most recent events that condition the level of risk assumed.

Liquidity risk

Liquidity risk is associated with the Bank's ability to finance its commitments at reasonable market prices and to carry out its business plans with stable sources of funding. The Bank permanently monitors maximum gap profiles.

The measures used to control liquidity risk in balance sheet management are the liquidity gap, liquidity ratios, stress scenarios and contingency plans.

a) Liquidity gap

The liquidity gap determines the inflow and outflow of funds for assets, liabilities and off-balance sheet accounts at a given time horizon, making it possible to analyze mismatches between the Bank's expected inflow and outflow of funds.

A liquidity gap may be prepared and analyzed as divided into local currency liquidity gap and foreign currency liquidity gap, under which cash and cash equivalents, inflows and outflows and strategies are segregated into local and foreign currency, respectively.

The Bank prepares three types of Liquidity Gap analyses:

1 – Contractual liquidity gap

The Contractual Liquidity Gap determines the contractual maturity flows of the Bank's major products on a consolidated basis, and any existing mismatches. It also informs the available liquidity in one day and the consumption of or increase in liquidity in the period.

2 – Operational liquidity gap

Daily cash monitoring and management considering the market situation, maturities and renewal of assets and liabilities, liquidity requirement and specific events.

3 – Projected liquidity gap

Based on the Contractual Liquidity Gap, new maturity flows are projected considering the Bank's budget plan.

b) Liquidity ratios

In addition to the Liquidity Gap analysis, a Structure Liquidity model is also prepared to assess the structure profile of the sources and uses of the Bank's funds, which includes Liquidity Ratio studies:

The key Liquidity Ratios analyzed are as follows:

- Deposits/Lending operations – measures the Institution's ability to finance lending operations with more stable and lower-cost funding.

- Stable Liabilities/Permanent Assets – measures the ration between Capital + Other Stable Liabilities and Investments + Other Permanent Assets.

- Market Funding/Total Assets – measures the percentage of the Group's assets financed with less stable and higher-cost funding.

- Short-term market funding/Market Funding – measures the percentage of probable liquidity loss (less than 90 days) on total less stable funding.

- Net Assets/Short-term Market Funding – measures the commitment ratio of highly-liquid assets and probable liquidity loss(less than 90 days).

c) Scenario analysis/Contingency plan

Liquidity management requires an analysis of financial scenarios where possible liquidity issues are evaluated. For this, crisis scenarios are built and then studied. The model used for this analysis is the Liquidity Stress Test.

The Liquidity Stress Test assesses the institution's financial structure and ability to resist and respond to the most extreme situations.

The purpose of the Liquidity Stress Test is to simulate adverse market conditions, making it possible assess impacts on the institution's liquidity and payment ability, so as to take preventive actions or avoid positions that may adversely affect liquidity in worst-case scenarios.

Scenarios are determined based on an analysis of the market commitment during prior crises and future estimates. Four scenarios with different intensity levels are prepared.

Based on an analysis of the stress models, the Minimum Liquidity concept was determined, which is the minimum liquidity required to support the liquidity losses of up to 90% for 90 days in all crisis scenarios simulated.

Based on the results obtained through the Liquidity Stress Test, the Bank prepares its Liquidity Contingency Plan, which is a formal combination of preventive and corrective actions to be taken in liquidity crisis scenarios.

The Liquidity Contingency Plan is primarily intended to the following:

- Crisis identification – the preparation of a Liquidity Contingency Plan requires the determination in advance of a measurable parameter determining the institution's liquidity condition and structure. This parameter is the Liquidity Minimum Limit determined by the Liquidity Stress Test. When this limit is exceeded, there is a liquidity crisis environment, and thus, the Contingency Plan is used.

- Internal Communication – after the crisis is identified, it is necessary to establish clear communication channels to mitigate the problems raised. People held accountable for taking these contingency actions should be notified of the extent of the contingency and measures to be taken.

- Corrective actions – Actions intended to actually generate the funds required to solve or mitigate the effects of crisis, as follows:

  - Assess the type and severity of the crisis;

  - Identify the most impacted segment;

  - Put in practice the measures planned to generate funds, considering the required amount and cost of the additional resource, either financial or image cost.

ALCO reviews and approves stress models, Minimum Liquidity and Contingency Plan on a semi-annual basis.

If adverse market conditions occur, ALCO may review and approve new models, Minimum Liquidity and Contingency Plan on a need basis.

Structural foreign currency risk/Hedges of results/Structural equities risk

These activities are monitored by measuring positions, VaR and results.

Complementary measures

Calibration and test measures

Back-testing consists of performing a comparative analysis between VaR estimates and daily "clean" results (profit or loss on the portfolios at the end of the preceding day valued at following-day prices). The aim of these tests is to verify and provide a measure of the accuracy of the models used to calculate VaR.

Back-testing analyses performed at the Santander Bank comply, at the very least, with the BIS recommendations regarding the verification of the internal systems used to measure and manage financial risks. Additionally, the Santander Bank also conducts hypothesis tests: excess tests, normality tests, Spearman's rank correlation, average excess measures, etc.

The assessment models are regularly calibrated and tested by a specialized unit.

III.3 Control system

Limit setting

The limit setting process is performed together with the budgeting activity and is the tool used to establish the assets and liabilities available to each business activity. Limit setting is a dynamic process that responds to the level of risk considered acceptable by senior management.

The limits structure requires a process to be performed that pursues, inter alia, the following objectives:

1. To identify and delimit, in an efficient and comprehensive manner, the main types of financial risk incurred, so that they are consistent with business management and the defined strategy.

2. To quantify and communicate to the business areas the risk levels and profile deemed acceptable by senior management so as to avoid undesired risks.

3. To give flexibility to the business areas for the efficient and timely assumption of financial risks, depending on market changes, and for the implementation of the business strategies, provided that the acceptable levels of risk are not exceeded.

4. To allow business makers to assume risks which, although prudent, are sufficient to obtain the budgeted results.

5. To delimit the range of products and underlyings with which each Treasury unit can operate, taking into account features such as assessment model and systems, liquidity of the instruments involved, etc.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

III.4 Risks and results in 2009

Trading

The average VaR of the Bank's trading portfolio in 2009, at R$33,46 million and R$62.7 million for 2008. The dynamic management of this profile enables the Bank to change its strategy in order to capitalize on the opportunities offered by an environment of uncertainty.

A. Balance sheet management(1)

A1. Interest rate risk

Convertible currencies

At 2009 year-end, the sensitivity of the net interest margin at one year to parallel increases of 100 basis points applied to Santander Brazil (Santander plus Real) portfolios was concentrated on the BRL interest rate curve was negative by R$199.74 million, and dollar interest rate curve was negative by R$28.67 million.

Also at 2009 year-end, the sensitivity market value of equity to parallel increases of 100 basis points applied to the Santander Brasil in the BRL interest rate curve was negative by R$1093,25 million. With respect to the dollar curve, the sensitivity was negative by R$33,83 million.

Quantitative risk analysis

The interest rate risk in balance sheet management portfolios, measured in terms of sensitivity of the net interest margin (NIM) at one year to a parallel increase of 100 b.p. in the interest rate curve, of the Santander Brasil evolved in the third quarter of 2009, with the capture in the open market, reaching a maximum of R$269,6 million in September. reducing this level since the months following the balance-sheet. The sensitivity of value evolved from the third quarter in conjunction with the growth of the balance sheet, set up by the inflow of capital and in this period varied in the range of R$1078,76 million and R$1137,25 million.

At 2009 year-end, the risk consumption, measured in terms of an increase in 100 b.p. sensitivity of the MVE with Santander Brasil was negative R$1093,77 million, while the net interest margin risk at one year, measured in terms of an increase in 100 b.p. sensitivity of this margin, was negative R$201,79 million.

	MM BRL Dec 09
Sensitivity	
Net interest margin	201.79
Market Value	1,093.77
Balance Sheet Management	
VaR	396.56

(1) Includes the balance sheet total, except for the financial assets and liabilities held for trading.

A2. Structural liquidity management

Structural liquidity management seeks to finance the Bank's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

The main features of the structural liquidity management in 2009 were as follows:

- Ample structural liquidity position. Since Santander is basically a commercial bank, customer deposits constitute the main source of liquidity in its financing structure. These deposits, combined with capital and other similar instruments, enable the Bank to cover most of its liquidity requirements and, as a result, the financing raised in wholesale markets is moderate with respect to the size of its balance sheet.

- In Brazil, the legal reserve requirement takes a considerable part of the funding.

- Obtainment of liquidity through diversification in instruments. Additionally, subordinated and senior debts have an overall long maturity.

- The local balance sheet should be self-funded.

- Based on stress test results, a minimum liquidity buffer is maintained.

- Santander reliance in international funding is not considerable.

- The aim is that hard currency related activities be funded with third parties hard currency funding.

- Though, given that potential disruptions in this market, Santander Brazil has mechanisms to use the local liquidity in order to support hard currency activities.

- High capacity to obtain on-balance-sheet liquidity. Government bond positions are held for liquidity management purposes.

- The Bank performs control and management functions, which involves planning its funding requirements, structuring the sources of financing to achieve optimum diversification in terms of maturities and instruments, and defining contingency plans.

In practice, the liquidity management performed by the Bank consists of the following:

- Each year, a liquidity plan is prepared on the basis of the financing needs arising from the budgets of each business. Based on these liquidity requirements and taking into account certain prudential limits on the obtainment of short-term market financing, the Bank establishes an issue and securitization plan for the year.

- Throughout the year the Bank periodically monitors the actual changes in financing requirements and updates this plan accordingly.

- Control and analysis of liquidity risk. The primary objective is to guarantee that the Bank has sufficient liquidity to meet its short- and long-term financing requirements in normal market situations. To this end, the Bank employs certain balance-sheet control measures, such as the liquidity gap and liquidity ratios.

Simultaneously, various scenario (or stress-scenario) analyses are conducted which consider the additional requirements that could arise if certain extreme but plausible events occur. The aim pursued is to cover a broad spectrum of situations that are more or less likely to affect the Bank, thus enabling it to prepare the related contingency plans.

IV. Operational and Technological Risks and Business Continuity Management

The adequate management and control of operational risks are among the competitive drivers for the Santander Brazil. In the Bank's ongoing endeavor to ensure the effectiveness of its internal control system and to prevent and mitigate operational risk events and losses, it is necessary to adopt, maintain and disseminate an operational risk management culture, policies and framework.

The mission statement for the Operational Risk Unit reflects this concern:

"The Unit is responsible for implementing and disseminating the culture, policies and framework necessary to ensure that all employees are actively committed to adequately managing and controlling operational risks, technological risks and business continuity while maintaining the effectiveness of the internal control system. It is in this manner that the area contributes to attaining the objectives of both the Santander Brazil and its stakeholders."

Through its operational risk management practices and its operational processes, the Santander Brazil strives to continually rank among the top financial institutions recognized as having the best practices. As such, the Bank's processes contribute to achieving its strategic objectives while at the same time continually enhancing its soundness, reliability and reputation in both the domestic and international markets.

In alignment with external supervisory and regulatory bodies, the Santander Brazil defines operational risk events as those resulting from deficiencies or failures in internal processes, people and systems, in additional to those resulting from external events. An operational risk event may or may not result in financial losses, affect business continuity, or have an adverse effect on stakeholders.

The Santander Brazil has adopted a well defined model to meet the challenges that operational and technological risks present. Risk management for daily activities falls under the aegis of the functional units. At the same time, the following organizational structure is part of the Bank's corporate governance framework:

- Operational Risk Executive Committee
- Operational Risk Unit
- Information Security Department
- Special Occurrences Department
- Fraud Prevention and Intelligence Department
- Operational and Technological Risks Department

Operational and Technological Risks Department

The Operational and Technological Risks Department is responsible for implementing best practices for the management and control of operational risks, technological risks and business continuity. The department assists managerial and operational staff in meeting their strategic objectives, strengthening the robustness of the decision-making process, optimizing execution of daily activities, in addition to complying with regulatory obligations. Overall, the joint effort results in maintaining the Bank's soundness, reliability and reputation.

The foundations of the operational and technological risk management and control model combine two approaches: centralized and decentralized.

Centralized Approach

As per the centralized approach, the Operational and Technological Risks Department is responsible for the control of operational and technological risks. Departmental responsibilities include: identify, assess, capture, monitor, control, analyze, consolidate, model and assist in mitigating not only relevant operational risks but also loss events resulting from operational and technological risks. The scope of the Department's responsibility comprises organizational units, processes and entities belonging to the Santander Brazil.

Decentralized Approach

As per the decentralized approach, each individual organizational unit along with the corresponding managers is responsible for operational and technological risk management. Internal Control and Operational Risk Agents in conjunction with the Operational and Technological Risks Department provide support through policies, methodologies and tools.

The Santander Brazil strives to integrate and consolidate best practices for operational risk management and control. In conjunction with the centralized and decentralized management approaches, the Bank adopts complementary approaches. Such additional practices are based on qualitative and quantitative elements, technological risk management and control, and business continuity management.

Qualitative and Quantitative Approaches

The objective of the qualitative approach is to identify and mitigate the materialization of operational risk. Moreover, through qualitative analysis, risk profiles are determined for departments, processes and products. The goal is to strengthen the internal control environment and monitor corporate key risk indicators.

The quantitative and qualitative approaches correlate. The quantitative approach aids in detecting, remedying and mitigating operational risk. In addition, quantitative techniques provide tools for analysis and decision-making whether strategic or operational.

The main methodological tools for the qualitative and quantitative approaches are as follows:

- Operational and technological risk matrix
- Abridged operational and technological risk matrix for new products
- Self-assessment questionnaires
- Internal historical database for operational risk events and losses

- Projecting forecasts and monitoring limits for operational risk losses
- Analysis and treatment of operational risk failures and events, including corrective action plans
- Key risk indicators for operational risks

By combining the qualitative and quantitative approaches, the Bank optimizes operational, technological and business continuity risk management. Consequently, this reflects on economic and regulatory capital requirements.

Technological Risk Management and Control

With regards to technological risks, the responsibility is to assist managers in identifying and evaluating risks and the respective internal controls as they specifically pertain to information technology (IT) processes and activities. The scope of activities comprises defining methodologies, tools and systems for corporate technological risk management in addition to coordinating efforts with IT managers to prevent and reduce the frequency and severity of technological risk events.

Business Continuity Risk Management and Control

With regards to business continuity management, the responsibility is to coordinate and control the implementation, maintenance and upkeep of the methodology as it pertains to the Santander Brazil. Key elements of the methodology are:

- Business Impact Analysis
- Business Continuity Plan: Development and Simulation
- Crisis Response Group

Scope and Sustainability

By acting in an ethical and professional manner, risk management and control result in important achievements that contribute to the continuity of the Institution and its sustainable development. Accomplishments include:

- Improved operational efficiency, productivity enhancements, optimized economic and regulatory capital allocations.
- Strengthening the Bank's reputation and improving the stakeholders' risk versus reward relationship.
- Timely compliance with new regulatory requirements.
- Preserve the quality and reliability of the product and service offering.
- Timely correction of vulnerabilities identified in processes.
- Timely follow-up and compliance with specific regulatory requests.

- Acculturation of risk management awareness and accountability.
- Develop and deliver both on-line and face-to-face training programs.
- Create awareness of operational risk management and control through internal communication channels.

This framework allows the Bank to continuously improve its methodologies and to embed a cultural awareness throughout the Organization with respect to the responsibility for managing and controlling operational risk.

Differential

The Operational Risk Unit maintains its staff professionally up-to-date and trained to face a changing business environment. Moreover, the Unit offers both Intranet and face-to-face training programs to other staff members throughout the Bank.

Noteworthy accomplishments include:

- Annual Operational and Technological Risk Prevention and Control Week.
- Integration program for new employees, consisting of lectures that focus on each individual's responsibility within the context of operational risk management.
- Training on how to assess the internal control environment.
- Elaborate, publish and maintain policy manuals that reinforce cultural awareness and employee involvement in operational risk management practices.
- Coordinate the annual operational risk loss forecast, identify action plan initiatives to reduce losses and improve accountability.
- Develop key risk indicators to obtain data for absolute and comparative analysis based on volumes and benchmarks.
- Interact with other units throughout the Bank and elect representatives within the most risk-prone areas including Information Technology.

Outlook

Based upon the framework, methodologies, and modus operandi that are in place, the Santander Brazil aims to strengthen its position both locally and internationally. As such, the Bank strives to consolidate its strategy and remain in the forefront of operational, technological and business continuity risk management and control. Further substantiating this claim is the implementation of not only an efficient and effective internal control environment but also a risk exposure identification process.

Key accomplishments and additional information, such as the establishment of the Operational Risk Executive Committee, have been published since December 2008 in Annual Reports and Consolidated Financial Statements, which can be found at www.ri.santander.com.br.

V. REPUTATIONAL RISK

1. Reputational Risk

Santander (Brazil) believes that the fundamental precept of its long-term business sustainability and shareholder value creation requires proper conduct of the business activities in accordance with Santander Corporate Values.

Compliance risk has been defined as the risk of legal or regulatory sanctions, material financial loss, or reputational harm Santander (Brazil) may suffer as a result of its failure to comply with relevant laws, regulations, principles and rules, standards and codes of conduct applicable to its activities, in letter and in spirit.

Santander (Brazil) defines reputational risk as a risk arising from negative public opinion, irrespective of whether this opinion is based on facts or merely on public perception.

Such risk can result from either:

- Actions and behaviour of the organization or its staff like products sold, services provided or interactions with stakeholders, which constitutes direct risk.

- Actions and behaviour of external parties, which constitutes indirect risk.

2. Organization and independence of the Compliance function

A key component of risk management is to ensure that the bank's reputation is preserved and enhanced through selecting to engage responsibly in the right business, with the right clients.

The Compliance Department is responsible for assisting the bank to identify, measure and mitigate a significant part of the compliance risk but not in its entirety. Other key stakeholders in the process include the Supervisory Board, Senior Management, Finance Department, Human Resources, Risk Department and Legal.

The compliance function within the bank is the independent oversight on behalf of senior management of those core processes and related policies and procedures that seek to ensure the bank is in conformity with industry-specific laws and regulations in letter and spirit, thereby helping to maintain the bank's reputation.

3. Directives

a. Compliance principles – Ethics and Conduct in the Securities Markets

- The Bank's ethical principles and conduct parameters are established in internal policies which are made available and formally adhered to by all employees. Proper communication channels are in place to clarify doubts and complaints from staff, and monitoring and controls are conducted in a way that adherence is secured.

b. Anti-money laundering

- The Bank's anti-money laundering policies are based on the knowledge and rigorousness in the acceptance of new clients, complemented by the continuous scrutiny of all transactions entered into by the bank. The importance given to the theme is reflected on the direct involvement of higher management, namely the Executive Committee for AML and Compliance, which meets each trimester to deliberate on issues regarding the theme and to be directly involved with new clients acceptance and suspicious transactions reporting.

c. New products and services and suitability

- All new products and services are debated/analyzed in internal committees on several levels until their risks are completely minimized, the Global Committee of New Products (CNGP), integrated by senior executives of Santander (Spain), being the ultimate approval instance.

VI. COMPLIANCE WITH THE NEW REGULATORY FRAMEWORK

The Santander Bank has assumed from the outset a firm commitment to the principles underlying the "Revised Framework of International Convergence of Capital Measurement and Capital Standards" (Basel II). This framework allows entities to make internal estimates of the capital they are required to hold in order to safeguard their solvency against events caused by various types of risk. As a result of this commitment, the Santander Bank has devoted all the human and material resources required to ensure the success of the Basel II implementation plan. For this purpose, a Basel II team was created in the past, consisting of qualified professionals from the Bank's different areas: mainly Risks, Technology and Operations, the Controller's Unit, Financial Management, Internal Audit −to verify the whole process, as the last layer of control at the entity−, and Business −particularly as regards the integration of the internal models into management. Additionally, specific work teams have been set up to guarantee the proper management of the most complex aspects of the implementation.

Supplementing the efforts of the Basel II operating team, Santander Bank senior management has displayed total involvement from the very beginning. Thus, the progress of the project and the implications of the implementation of the New Capital Accord for the Santander Bank have been reported to the management committee and to the board of directors on a regular basis.

In the specific case of credit risk, the implementation of Basel II entails the recognition, for regulatory capital purposes, of the internal models that have been used for management purposes.

The Bank intends to apply, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of net exposure of the loan portfolio covered by this approach is close to 100%.

Given the medium-low risk profile characterizing Santander's business activities, since it focuses primarily on commercial banking (corporations, SMEs and individuals), and the significant diversification of the Bank's risk and business profiles will enable it to offset the additional capital requirements arising from the Internal Capital Adequacy Assessment Process (presented under Pillar 2), which takes into account the impact of risks not addressed under Pillar 1 and the benefits arising from the diversification among risks, businesses and geographical locations.

In addition to the supervisory validation and approval process, the Santander Bank continued in 2009 with the project for the progressive implementation of the technology platforms and methodological developments required for the roll-out of the AIRB approaches for regulatory capital calculation purposes. Therefore, the Bank expects to apply advanced approaches for the calculation of regulatory capital requirements at its business units in Brazil in 2013, after the required approval from the supervisory authorities has been obtained.

As regards the other risks explicitly addressed under Pillar 1 of Basel II, the Santander Bank is developing internal model for market risk with respect to the Treasury area's trading activities in Brazil. It is expected that Banco Santander Brazil presents the application in the 2nd. Semester of 2010 to regulators in order to use internal models to calculate regulatory capital. As far as operational risk is concerned, the Bank decided to use the standardized approach for regulatory capital calculation purposes, since it considers that the use of AMA approaches for this risk is somewhat premature.

Pillar 2 is another significant line of action under the Basel II Corporate Framework. In addition to reviewing and strengthening the methodology supporting the economic capital model, the technology was brought into line with the platform supporting Pillar 1, so that all the information on credit risk will come from this source when Brazil implement internal models under Pillar 1. In 2008 the Santander Bank's economic capital model was submitted to a thorough review by an international team of CEBS supervisors led by the Bank of Spain, in addition to the internal review conducted at the end of 2008 by the Bank's internal validation and internal audit teams.

Internal validation of risk models

Internal validation is a pre-requisite for the supervisory validation process. A specialized unit of the Entity, with sufficient independence, obtains a technical opinion on the adequacy of the internal models for the intended internal or regulatory purposes, and concludes on their usefulness and effectiveness. This unit must also assess whether the risk management and control procedures are adequate for the Entity's risk strategy and profile.

In addition to complying with the regulatory requirement, the internal validation function provides an essential support to the risk committee and the local risk committees in the performance of their duties to authorize the use of the models (for management and regulatory purposes) and in their regular reviews, since senior management must ensure that the Entity has appropriate procedures and systems in place for the monitoring and control of credit risk.

Internal model validation at the Santander Bank encompasses credit risk models, market risk models, option pricing models and the economic capital model. The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the quality of the data they provide, on which their effective operation relies, and, in general, all the relevant aspects of advanced risk management (controls, reporting, uses, involvement of senior management, etc.). Therefore, the aim of internal validation is to review quantitative, qualitative, technological and corporate governance-related aspects.

The internal validation function is located, at corporate level, within the Integrated Risk Control and Internal Risk Validation area (CIVIR) and reports directly to head office (the third deputy chairman of the Bank and to the chairman of the risk committee) in Madrid. This function is performed at a global and corporate level in order to ensure uniformity of application. The need to validate models implemented at thirteen different units subject to nine different local supervisors, combining efficiency and effectiveness, made it advisable to create three corporate validation centers located in Madrid, London and Sao Paulo. This facilitates the application of a corporate methodology that is supported by a set of tools developed internally by the Santander Bank which provide a robust corporate framework for application at all the Bank's units and which automate certain verifications to ensure efficient reviews.

It should be noted that the Santander Bank's corporate internal validation framework is fully consistent with the internal validation criteria for advanced approaches issued by the Bank of Spain. Accordingly, the Bank maintains the segregation of functions between internal validation and internal audit, which, in its role as the last layer of control at the Bank, is responsible for reviewing the methodology, tools and work performed by internal validation and for giving its opinion on the degree of effective independence.

Capital Management

The Bank's capital management is performed at regulatory and economic levels.

Regulatory capital management is based on the analysis of the capital base and the capital ratios using the criteria of Brazilian Central Bank. The aim is to achieve a capital structure that is as efficient as possible in terms of both cost and compliance with the requirements of regulators, ratings agencies and investors. Active capital management includes securitizations, sales of assets, preference and subordinated issues of equity instruments and hybrid instruments.

From an economic standpoint, capital management seeks to optimize value creation at the Bank and at its different business units. To this end, the economic capital, RORAC (return on risk-adjusted capital) and value creation data for each business unit are generated, analyzed and reported to the management committee on a quarterly basis. Within the framework of the internal capital adequacy assessment process (Pillar 2 of the Basel Capital Accord), the Bank uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in different economic scenarios, with the solvency levels agreed upon by the Bank.

In order to adequately manage the Bank's capital, it is essential to estimate and analyze future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on reference to the budgetary information (balance sheet, income statement, etc.) and on macroeconomic scenarios defined by the Economic Research Service. These estimates are used by the Bank as a reference to plan the management actions (issues, securitizations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables, GDP, interest rates, stock market indexes, etc. that mirror historical crises that could happen again.

VII. ECONOMIC CAPITAL

Main objectives

The emergence of economic capital models across the financial world was aimed at addressing a fundamental problem of regulatory capital. Risk Sensitiveness. The latter is mandatory and has been defined by regulators in a one-size-fits-all manner for comparison purposes.

By contrast, economic capital models are primarily designed to yield risk sensitive estimations with two objectives in mind: managing risk more accurately and allocating the cost of maintaining regulatory capital among different units within the organisation.

Taking into consideration the importance of developing risk sensitive capital models, Santander Brazil has been making all the efforts to build a robust economic capital model and integrate it fully in the management of the business.

The main objectives of Santander's Economic capital framework are:

1 – Consolidate Pillar II and other risks impinging business activities into a single quantitative model, as well as fine tune capital estimations by establishing correlations between the different risks;

2 – Quantify and monitor variations on different types of risk;

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

3 – Distribute capital consumption for the main portfolios and manage its return on capital efficiency (RoRAC);

4 – Estimate the Economic Value Added for each business unit in order to assess performance targets and improve the shareholder's return. The Economic profit must surpass the group's Cost of Capital;

5 – Compliance with the home and host regulators in the process of the supervisory review of Pillar II.

The Model

When calculating economic capital the Bank must decide the levels of losses it wants to cover. This is defined by the level of confidence with which it wants to ensure the continuation of its business. Santander's adopted confidence level is at 99.97% which is considerably above the 99.90% required by Basel II. This basically means that Santander assumes a probability of default of 0.03%, three times lower than the 0.1% proposed by Basel II.

As a result of its prudent economic capital model, Santander meets the criteria for receiving a global AA rating.

Brazil's Risk profile

The risk profile of Brazil is distributed by the following types of risks:

% Capital	
Risk	**Dec 09**
Credit	68.6%
Market	4.1%
ALM	10.4%
Business	8.8%
Operational	8.1%
TOTAL	**100%**

The Credit activity, which in Dec 2009 required 68,6% of Brazil's economic capital, continued to be the main source of risk. This was followed by ALM, Business and Operational Risk respectively.

Business risk has very conservative Beta factors which are applied to General Business Expenses. Operational Risk uses as its basis the Standardised approach. As such, it applies Beta factors to the Gross Income which is and it is very punitive for countries with high spreads.

Risk	**Dec 08**	**jun/08**	**Dec 09**	**jun/09**
Credit	73.7%	73.1%	68.6%	69.8%
Market	1.8%	4.2%	4.1%	6.7%
ALM	7.2%	6.7%	10.4%	7.0%
Business	10.3%	8.5%	8.8%	8.6%
Operational	7.0%	7.5%	8.1%	7.7%
TOTAL	**100%**	**100%**	**100%**	**100%**

(*) The Economic Capital model did not include data of Banco Real for Jun 08. In order to include both banks a proxy was used for estimating the number.
(**)A forecast has been used for Dec 09.

The estimated RoRAC (risk adjusted return) for Dec 09 is 22.91%.

Santander Brazil periodically assesses the level and evolution of the creation of value (EVA) of its main business units. The EVA is the profit generated above the cost of capital employed, and is calculated using the following formula:

EVA=RoRAC – Cost of Capital

RoRAC=Economic Profit/Economic Capital

The economic profit is obtained by making some necessary adjustments to the Net profit. The cost of capital, which is the minimum remuneration required by the shareholders, can be calculated by adding to the risk free return, the premium that shareholders require to invest in Santander. The model currently in use is the CAPM.

Santander also conducts capital planning based on stress test scenarios with the purpose of obtaining future projections of economic and regulatory capital. Results forecasts for the Bank are incorporated into the various scenarios in a coherent way, including their strategic objectives (organic growth, M&A, pay-out ratio, debt issues, etc). Possible capital management strategies are identified to enable the Bank's solvency and return on capital to be optimised.

Despite the fact that the economic capital estimations yield conservative numbers, Santander is in a very comfortable position. The bank has 95% more capital than the economic capital requirement. As for the regulatory capital the bank has 108% more capital. (It does not consider the goodwill effect).

RoRAC

Santander has been using RoRAC since 1993, with the following purposes:

1 – To analyse and set a minimum price for operations (admissions) and clients (monitoring);

2 – To estimate the capital consumption of each client, economic groups, portfolio or business segments in order to optimize the allocation of economic capital thus maximising the bank's efficiency;

3 – To calculate the level of provisions that correspond to average expected losses.

For assessing each transaction the economic capital takes into consideration some variables in order to calculate the Expected and Unexpected losses.

Amongst these variables it is taken into consideration:

1 – Counterparty rating;

2 – Maturity;

3 – Guarantees;

4 – Type of financing;

The return on capital is determined by the cost of capital. In order to create value for the shareholders the minimum return that a transaction must yield must be higher than Santander's cost of capital. A transaction which does not cover the cost of capital is not approved.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

VIII. TRADING BOOK SENSITIVITY ANALYSIS

From a local regulatory point of view, Banco Santander's trading risk management is focused on portfolios and risk factors pursuant to BACEN's regulations and good international practices.

As in the management of market risk exposure, financial instruments are segregated into trading and banking portfolios according to the best market practices and the transaction classification and capital management criteria of the Basel II New Standardized Approach of BACEN. The trading portfolio consists of all transactions with financial instruments and products, including derivatives, held for trading, and the banking portfolio consists of core business transactions arising from the different Bank business lines and their possible hedges. Accordingly, based on the nature of the Bank's activities, the sensitivity analysis was fully applied to the trading portfolio, as this portfolio represents the exposures that may have impacts on the Bank's income.

The table below summarizes the stress values generated by the Bank's corporate systems, related to the trading portfolio, for each one of the portfolio scenarios as of the dates specified on each table and does not necessarily reflect the current position, in view of the market dynamics and the Bank's activities.

Santander Group Brazil Trading Book Sensitivity

in thousand of BRL

Dec 08

Risk Factor	Scenario 1	Scenario 2	Scenario 3
IR USD	(1,092)	14,279	96,598
IR Other Currency	(1,198)	(11,981)	(59,903)
Fixed Rate (BRL)	(3,354)	(33,536)	(167,681)
Cash Equity & Equity Index	3,812	9,529	19,058
Inflation	(1,809)	(18,086)	(90,431)
Other	(3,609)	(36,091)	(180,455)
TOTAL	**(7,250)**	**(78,886)**	**(382,814)**

Dec 09

Risk Factor	Scenario 1	Scenario 2	Scenario 3
IR USD	4,727	36,066	169,130
IR Other Currency	(4,025)	(40,251)	(201,256)
Fixed Rate (BRL)	(3,640)	(36,401)	(182,006)
Cash Equity & Equity Index	(565)	(1,411)	(2,823)
Inflation	465	4,654	23,272
Other	(2)	(23)	(114)
TOTAL	**(3,040)**	**(37,366)**	**(193,797)**

Scenarios 2 and 3 above consider the deterioration situations established in CVM Instruction 475, of December 17, 2008, considered as of low probability. According to the strategy defined by Management, if signs of deterioration are detected, actions are taken to minimize possible negative impacts.

Scenario 1: usually reported in our daily reports and corresponds to an upward shock of 10 basis points on the local and foreign currencies coupon curves, plus a shock of 10% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of ten basis points on the volatility surface of currencies used to price options.

Scenario 2: corresponds to an upward shock of 100 basis points on the local and foreign currency coupon curves, plus a shock of 25% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of 100 base points on the volatility surface of currencies used to price options.

Scenario 3: corresponds to an upward shock of 500 basis points on the local and foreign currency coupon curves, plus a shock of 50% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of 500 basis points on the volatility surface of currencies used to price options.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

IR USD: all products with price changes tied to changes in the US currency and the US dollar interest rate.

IR Other Currency: all products with price changes tied to changes in any currency other than the US dollar and the US dollar interest rate.

Fixed rate (BRL) – in Brazilian reais: all products with price changes tied to changes in interest rate in Brazilian reais.

Equities and indices: stock market indices, shares and options tied to share indices or the shares themselves.

Inflation: all products with price changes tied to changes in inflation coupons and inflation indices.

Other: any other product that does not fit in the classifications above.

45. Supplementary information – Reconciliation of shareholders' equity and net income of the Bank (Not required under IFRS for the year ended December 31, 2009, 2008 e 2007)

Following the Brazilian Securities Commission (CVM) Instruction 457/7 from 13/07/07, we present a reconciliation of shareholders' equity and net income attributed to the parent between Brazilian GAAP and IFRS, for each of the periods presented, below:

	Note	2009	2008
		(Thousands of *Reais*)	
Shareholders' equity attributed to the parent under Brazilian GAAP		**64,492,693**	**48,756,557**
IFRS adjustments, net of taxes:			
Pension plan discount rate	e	(174,218)	(179,343)
Classification of financial instruments at fair value through profit or loss	f	19,440	43,675
Redesignation of financial instruments to available-for-sale	a	555,104	552,854
Impairment on loans and receivables	b	960	(234,300)
Accounting under equity method	c	(15,078)	(5,970)
Deferral of financial fees, commissions and inherent costs under effective interest rate method	g	217,205	174,116
Reversal of goodwill amortization and others	h	3,424,772	376,766
Mark to market of foreign currency forward	i	(30,186)	(11,069)
Impairment losses of other financial assets	j	31,773	32,200
Impairment losses on non financial assets	d	17,439	1,542
Realization on purchase price adjustments	k	727,101	315,992
Other		(1,600)	8,179
Shareholders' equity attributed to the parent under IFRS		**69,265,405**	**49,831,199**
Minority interest under IFRS		1,338	5,279
Shareholders' equity (including minority interest) under IFRS		**69,266,743**	**49,836,478**

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

	Note	2009	2008	2007
		(Thousands of *Reais*)		
Net income attributed to the parent under Brazilian GAAP		**1,805,899**	**1,580,614**	**1,845,396**
IFRS adjustments, net of taxes:				
Pension plan discount rate	e	5,125	6,966	12,501
Classification of financial instruments at fair value through profit or loss	f	(6,687)	34,015	9,660
Redesignation of financial instruments to available-for-sale	a	(15,243)	49,260	(11,220)
Accounting under equity method	c	–	(16,897)	(758)
Deferral of financial fees, commissions and inherent costs under effective interest rate method	g	43,089	(39,716)	71,898
Reversal of goodwill amortization and others	h	3,030,122	376,766	–
Impairment on loans and receivables	b	235,260	27,720	(25,080)
Mark to market of foreign currency forward	i	(19,117)	(11,069)	–
Impairment losses of other financial assets	j	(427)	32,200	–
Impairment losses on non financial assets	d	15,897	13,332	2,310
Realization on purchase price adjustments	k	411,109	315,992	–
Other		2,579	9,212	(1,708)
Net income attributed to the parent under IFRS		**5,507,606**	**2,378,395**	**1,902,999**
Minority interest under IFRS		358	231	–
Net income (including minority interest) under IFRS		**5,507,964**	**2,378,626**	**1,902,999**

a) Redesignation of financial instruments to available-for-sale:

Under BR GAAP, the Bank accounts for certain investments in debt securities at amortized cost and equity instruments at cost. Under IFRS, the Bank has classified these investments as available-for-sale, measuring them at fair value with the changes recognized in consolidated statements of recognized income and expense, under the scope of IAS 39 “Financial Instruments: Recognition and Measurement”.

b) Impairment on loans and receivables:

Under IFRS, based on the guidance provided by IAS 39 “Financial Instruments: Recognition and Measurement”, the Bank estimates the allowance for loan losses based on historical experience of impairment and other circumstances known at the time of assessment. Such criteria differs in certain aspects, to the criteria adopted under BR GAAP, which uses certain regulatory limits defined by the BACEN for purposes of allowance for loan losses calculation.

c) Accounting under equity method:

Under Brazilian GAAP, investments in certain associates are accounted for at cost, as they do not meet the criteria, under these accounting principles, to be accounted for using the equity method. Such criteria include total ownership of at least 10% and the relevance of the investment in the associate in relation to the investor’s total equity. Under IFRS, in accordance with IAS 28 “Investments in Associates”, an investment in an associate which the investor has significant influence, even if less than 20% of ownership, is accounted for using the equity method of accounting. In accordance to Resolution CMN No. 3.619, BR GAAP has been amended to converge with the guidance provided by IAS 28.

d) Impairment losses on non financial assets:

Under BR GAAP, impairment losses on certain tangible assets relating to the Bank’s branches were recognized during the year ended December 31, 2008 as a result of the adoption of CPC 01, “Reduction in the Recoverable Value of Assets.” CPC 01 changed the methodology used in BR GAAP to converge to IFRS (IAS No. 36, “Impairment of Assets.”). Prior to the issuance of CPC 01, the Bank grouped together certain branch assets when evaluating for recoverability. Under IFRS, the Bank evaluates these assets for impairment at the level of each individual branch, in which for the Bank represents a cash generating unit in accordance with IAS 36 “Impairment of Assets”.

e) Pension plan discount rate:

Under BR GAAP, the discount rate used for benefit obligations reflects the nominal interest rate. Under IFRS, in accordance with IAS 19 "Employee Benefits", the rate used to discount post-employment benefit obligations was determined by reference to market yields at the end of the reporting period on high quality bonds.

f) Classification of financial instruments at fair value through profit or loss:

Under BR GAAP, all loans and receivables and deposits are accounted for at amortized cost. Under IFRS, the Bank designated certain loans and receivables and deposits as "fair value through profit or loss", in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Additionaly, certain debt instruments classified as "available for sale" under BR GAAP were designated as "fair value through profit or loss" under IFRS. The Bank has selected such classification basis as it eliminates an accounting mismatch in the recognition of income and expenses.

g) Deferral of financial fees, commissions and inherent costs under effective interest rate method:

Under IFRS, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", financial fees, commissions and inherent costs that are integral part of effective interest rate of financial instruments measured at amortized cost are recognized in profit or loss over the term of the corresponding contracts. Under BRGAAP these fees and expenses are recognizes directly at income when received or paid.

h) Reversal of goodwill amortization and others:

Under BR GAAP, goodwill is amortized systematically over a period of up to 10 years and the goodwill recorded is measured annually or whenever there is any indication that the asset may be impaired. Under IFRS, in accordance with IAS 38 "Intangible Assets", goodwill is not amortized, but instead, is tested for impairment, at least annually, and whenever there is an indication that the goodwill may be impaired; by comparing its recoverable amount with its carrying amount. The goodwill amortization is a permanent difference deductible for taxes matters and therefore there is no record of deferred tax liability.

i) Mark to Market of Foreign Currency Forward:

Under IFRS, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", foreign currency forward contracts are derivatives that are recorded at fair value. Under BR GAAP, these contracts are recorded at amortized cost.

j) Impairment losses of other assets:

Under IFRS, the Bank estimated the impact of accounting for allowance other assets, which is different, in certain aspects, to the criteria adopted under BR GAAP.

k) Realization on purchase price adjustments:

As part of the purchase price allocation, following the requirements of IFRS 3, the Bank has revalued its assets and liabilities to fair value, including identifiable intangible assets with finite lives. Under BR GAAP, in a business combination, the assets and liabilities are not remeasured to their related fair values. Therefore, this adjustment relates to the following items:

- The amortization related to the step up in the value of assets in the loan portfolio in relation to its book value: As the value of the loans were adjusted to fair value, this causes an adjustment to the yield curve of the related loans in comparison to its nominal value, which is offset pro-rata with this adjustment.

- The amortization of the identified intangible assets with finite lives over their estimated useful lives (over 10 years).

46. Subsequent Events

Anticipated Redemption of Subordinate CDB

On January 22, 2010, the Bank redeemed in advance the Subordinate CDB (bank certificate of deposit), whose creditor was Banco Santander Espanha, with original maturity on March 25, 2019 and amounting to R$1,507,000 thousand, pursuant to authorization granted by the Central Bank of Brazil on January 8, 2010.

The purpose of the antecipated redemption was to improve the funding structure of the Bank, accordingly to the strategy informed in the use of proceeds of the "Final Global Offering Prospect for the Initial Public Offering of Certificates of Deposit Shares (Units) Issuance of Banco Santander (Brasil) S.A." and Form F-1.

Association with Getnet

On January 14, 2010, the Bank signed the contractual and by-law documents instruments with Getnet Tecnologia em Captura e Processamento de Transações Eletrônicas Hua Ltda. ("Getnet") to jointly explore, explore, develop and market transaction capture and processing services involving credit and/or debit cards in the Brazilian market. The details of this alliance and its business plan will be presented by the end of the first quarter.

(Amounts in thousands of Brazilian Reais – R$, unless otherwise stated)

APPENDIX I – SUBSIDIARIES OF BANCO SANTANDER (BRASIL) S.A.

Direct and Indirect controlled by Banco Santander (Brasil) S.A.	Activity	Participation % Direct	Participation % Indirect	Stockholders' Equity	Net Income (Losses)
		(Thousands of *Reais*)			
Santander Seguros S.A.(5)	Insurance and Pension Plans	100.00%	100.00%	2,360,554	340,600
Santander S.A. Corretora de Câmbio e Títulos	Broker	99.99%	100.00%	246,393	66,519
Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Asset manager	100.00%	100.00%	237,661	35,913
Banco BANDEPE S.A.(1)	Bank	100.00%	100.00%	4,015,044	349,539
Santander Leasing S.A. Arrendamento Mercantil(2)	Leasing	78.57%	99.99%	11,720,578	1,056,756
Aymoré Crédito, Financiamento e Investimento S.A.	Financial	100.00%	100.00%	685,460	62,518
Santander Administradora de Consórcios Ltda.	Buying club	100.00%	100.00%	3,809	172
Santander Brasil Administradora de Consórcio Ltda.(3)	Buying club	100.00%	100.00%	92,925	38,470
Real Microcrédito Assessoria Financeira S.A.	Microcredit	100.00%	100.00%	9,616	3,053
Santander Advisory Services S.A.(4)	Other Activities	100.00%	100.00%	131,902	13,867
Companhia Real Distribuidora de Títulos e Valores Mobiliários	Dealer	100.00%	100.00%	82,625	6,596
Santander Corretora de Câmbio e Valores Mobiliários S.A.(6)	Broker	99.99%	100.00%	40,200	1,762
Real Argentina S.A.	Other Activities	98.99%	98.99%	53	(123)
Webmotors S.A.	Other Activities	100.00%	100.00%	40,762	11,743
Agropecuária Tapirapé S.A.	Other Activities	99.07%	99.07%	6,797	355
Real CHP S.A.	Holding	92.78%	92.78%	4,112	3,614
Controlled by Santander Seguros S.A.					
Santander Brasil Seguros S.A.(5)	Insurance and Pension Plans	–	100.00%	144,634	14,859
Santander Capitalização S.A.(5)	Savings and annuities	–	100.00%	386,870	138,222
Controlled by Companhia Real Distribuidora de Títulos e Valores Mobiliários					
Santander Securities (Brasil) Corretora de Valores Mobiliários S.A.	Broker	–	100.00%	67,784	5,030
Controlled by Santander Advisory Services S.A.					
Santander S.A. Serviços Técnicos, Administrativos e de Corretagem de Seguros	Insurance	–	100.00%	63,762	11,162
Real Corretora de Seguros S.A.	Insurance	–	100.00%	63,792	47,162
Brazil Foreign Diversified Payment Rights Finance Company	**Securitisation**	**–**	**(a)**	**67**	**–**

(a) Company over which effective control is exercised.
(1) Current denomination of Banco de Pernambuco S.A. – BANDEPE.
(2) Current denomination of Real Leasing S.A. Arrendamento Mercantil.
(3) Current denomination of ABN AMRO Administradora de Consórcio Ltda.
(4) Current denomination of ABN AMRO Advisory Services S.A.
(5) Consolidated companies with income from July 2009.
(6) Current denomination of ABN AMRO Real Corretora de Câmbio e Valores Mobiliários S.A.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Banco Santander (Brasil) S.A.
Sao Paulo - SP - Brazil

We have audited the consolidated balance sheets of Banco Santander (Brasil) S.A. and its subsidiaries ("Bank") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Brazilian reais. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Bank and its subsidiaries; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Bank at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board.

July 20, 2009

Deloitte Touche Tohmatsu

BANCO SANTANDER (BRASIL) S.A.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2008 AND 2007

	Note	2008	2007
		(Thousands of Brazilian Reais)	
ASSETS			
CASH AND BALANCES WITH THE BRAZILIAN CENTRAL BANK	4	23,700,500	22,276,941
FINANCIAL ASSETS HELD FOR TRADING:		19,986,000	12,292,501
Debt instruments	6	*10,011,999*	*8,535,261*
Equity instruments	7	*678,993*	*340,267*
Trading derivatives	8	*9,295,008*	*3,416,973*
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:		5,574,961	1,647,806
Loans and advances to credit institutions	5	*4,046,898*	*1,452,467*
Loans and advances to customers	9	*1,434,789*	—
Debt instruments	6	*93,274*	*195,339*
AVAILABLE-FOR-SALE FINANCIAL ASSETS:		30,735,681	9,303,457
Debt instruments	6	*29,491,191*	*6,684,760*
Equity instruments	7	*1,244,490*	*2,618,697*
LOANS AND RECEIVABLES:		162,725,106	55,034,260
Loans and advances to credit institutions	5	*29,691,635*	*5,831,178*
Loans and advances to customers	9	*133,033,471*	*49,203,082*
HEDGING DERIVATIVES		106,321	—
NON-CURRENT ASSETS HELD FOR SALE	10	112,824	32,000
INVESTMENTS IN ASSOCIATES	11	633,595	54,565
TANGIBLE ASSETS	12	3,829,074	1,110,970
INTANGIBLE ASSETS:		30,995,287	1,799,182
Goodwill	13	*27,488,426*	—
Other intangible assets	14	*3,506,861*	*1,799,182*
TAX ASSETS:		12,919,894	4,223,203
Current		*1,150,737*	*149,998*
Deferred	23	*11,769,157*	*4,073,205*
OTHER ASSETS	15	2,870,604	544,348
TOTAL ASSETS		**294,189,847**	**108,319,233**
LIABILITIES AND EQUITY			
FINANCIAL LIABILITIES HELD FOR TRADING:		11,209,600	4,650,305
Trading derivatives	8	*11,197,268*	*4,564,131*
Short positions	8	*12,332*	*86,174*
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS:		307,376	690,285
Deposits from credit institutions	16	*307,376*	*627,105*
Customer deposits	17	—	63,180
FINANCIAL LIABILITIES AT AMORTISED COST:		213,273,314	84,780,913
Deposits from the Brazilian central bank	16	*184,583*	—
Deposits from credit institutions	16	*26,325,636*	*18,217,012*
Customer deposits	17	*155,494,839*	*55,147,278*
Marketable debt securities	18	*12,085,655*	*2,805,417*
Subordinated liabilities	19	*9,197,429*	*4,210,224*
Other financial liabilities	20	*10,685,172*	*4,400,982*
HEDGING DERIVATIVES		264,771	—
PROVISIONS	21	8,915,245	4,816,321
TAX LIABILITIES:		6,156,101	1,718,841
Current		*3,025,207*	*266,201*
Deferred	23	*3,130,894*	*1,452,640*
OTHER LIABILITIES	22	3,526,962	1,453,988
TOTAL LIABILITIES		244,353,369	98,110,653
EQUITY			
SHAREHOLDERS' EQUITY:	26	49,317,582	8,671,479
Issued capital		*47,152,201*	*8,331,448*
Reserves		*1,240,031*	*701,800*
Profit for the year attributable to the Parent		*2,378,395*	*1,902,999*
Less: Dividends and remuneration		*(1,453,045)*	*(2,264,768)*
VALUATION ADJUSTMENTS:		513,617	1,537,044
Available-for-sale financial assets	25	*795,412*	*1,537,044*
Cash flow hedges	25	*(281,795)*	—
MINORITY INTERESTS	24	5,279	57
TOTAL EQUITY		**49,836,478**	**10,208,580**
TOTAL LIABILITIES AND EQUITY		**294,189,847**	**108,319,233**

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements

BANCO SANTANDER (BRASIL) S.A.

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Note	(Debit) Credit 2008	2007
		(Thousands of Brazilian Reais, except for per share data)	
Interest and similar income	29	23,767,814	13,197,368
Interest expense and similar charges	30	(12,329,845)	(7,002,082)
INTEREST INCOME/(CHARGES)		**11,437,969**	**6,195,286**
Income from equity instruments	31	36,972	36,387
Income from companies accounted for by the equity method	11	112,330	5,884
Fee and commission income	32	4,809,014	3,363,518
Fee and commission expense	33	(555,311)	(265,546)
Gains/losses on financial assets and liabilities (net)	34	(1,286,113)	1,516,664
Held for trading		*(1,214,846)*	*254,128*
Other financial instruments at fair value through profit or loss		*39,956*	*24,873*
Financial instruments not measured at fair value through profit or loss		*320,307*	*1,236,856*
Other		*(431,530)*	*807*
Exchange differences (net)	35	1,475,779	381,587
Other operating income (expense)	36	(59,817)	132,924
TOTAL INCOME		**15,970,823**	**11,366,704**
Administrative expenses		(7,184,937)	(4,460,217)
Personnel expenses	37	*(3,548,162)*	*(2,384,267)*
Other general expenses	38	*(3,636,775)*	*(2,075,950)*
Depreciation and amortization	12 & 14	(846,005)	(579,746)
Provisions (net)	21	(1,230,317)	(1,196,412)
Impairment losses on financial assets (net)		(4,099,284)	(2,159,437)
Loans and receivables	9	*(4,102,645)*	*(2,179,843)*
Other financial instruments not measured at fair value through profit or loss		*3,361*	*20,406*
Impairment losses on other assets (net)		(77,277)	(298,082)
Other intangible assets	14	*(52,002)*	*(227,533)*
Other assets		*(25,275)*	*(70,549)*
Gains on disposal of assets not classified as non-current assets held for sale	39	6,611	861
Gains on non-current assets held for sale not classified as discontinued operations	40	9,219	13,470
OPERATING PROFIT BEFORE TAX		**2,548,833**	**2,687,141**
Income taxes	23	(170,207)	(784,142)
CONSOLIDATED PROFIT FOR THE YEAR		**2,378,626**	**1,902,999**
Profit attributable to the Parent		*2,378,395*	*1,902,999*
Profit attributable to minority interests	24	*231*	—
EARNINGS PER SHARE (Brazilian reais)			
Basic and diluted earnings per 1,000 share (reais)			
Common shares		*11.59*	*14.02*
Preferred shares		*12.75*	*15.43*
Weighted average shares outstanding (in thousands) — Basic and diluted			
Common shares		*104,926,194*	*69,383,705*
Preferred shares		*91,168,064*	*60,285,449*

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements

BANCO SANTANDER (BRASIL) S.A.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE

	Year Ended December 31,	
	2008	2007
	(Thousands of Brazilian Reais)	
CONSOLIDATED PROFIT FOR THE YEAR	**2,378,626**	**1,902,999**
OTHER RECOGNIZED INCOME AND EXPENSE	**(1,023,427)**	**(46,824)**
Available-for-sale financial assets	(1,099,982)	(58,787)
Revaluation gains/losses	*(779,675)*	*1,178,069*
Amounts transferred to income statement	*(320,307)*	*(1,236,856)*
Cash flow hedges	(447,792)	—
Revaluation gains/losses	*(447,792)*	—
Income taxes	524,347	11,963
TOTAL RECOGNIZED INCOME AND EXPENSE	**1,355,199**	**1,856,175**
Attributable to the Parent	1,354,968	1,856,175
Attributable to minority interests	231	—
TOTAL	**1,355,199**	**1,856,175**

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements

BANCO SANTANDER (BRASIL) S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

	Equity Attributable to the Parent								
	Shareholders' Equity								
	Share Capital	Reserves	Profit Attributed to the Parent	Dividends and Remuneration	Total Shareholders' Equity	Valuation Adjustments	Total	Minority Interests	Equity
	(Thousands of Brazilian Reais)								
Balances at January 1, 2007	**6,831,448**	**1,263,450**	**—**	**(559,033)**	**7,535,865**	**1,583,868**	**9,119,733**	**57**	**9,119,790**
Total recognized income and expense	**—**	**—**	**1,902,999**	**—**	**1,902,999**	**(46,824)**	**1,856,175**	**—**	**1,856,175**
Other Changes in Equity									
Appropriation of profit for the year	—	—	—	—	—	—	—	—	—
Dividends/Remuneration	—	(559,033)	—	(1,705,735)	(2,264,768)	—	(2,264,768)	—	(2,264,768)
Capital increase	1,500,000	—	—	—	1,500,000	—	1,500,000	—	1,500,000
Other	—	(2,617)	—	—	(2,617)	—	(2,617)	—	(2,617)
Balances at December 31, 2007	**8,331,448**	**701,800**	**1,902,999**	**(2,264,768)**	**8,671,479**	**1,537,044**	**10,208,523**	**57**	**10,208,580**
Total recognized income and expense	**—**	**—**	**2,378,395**	**—**	**2,378,395**	**(1,023,427)**	**1,354,968**	**231**	**1,355,199**
Other Changes in Equity									
Appropriation of profit for the year	—	1,902,999	(1,902,999)	—	—	—	—	—	—
Dividends/Remuneration	—	(2,264,768)	—	811,723	(1,453,045)	—	(1,453,045)	—	(1,453,045)
Capital increase	38,820,753	900,000	—	—	39,720,753	—	39,720,753	—	39,720,753
Other	—	—	—	—	—	—	—	4,991	4,991
Balances at December 31, 2008	**47,152,201**	**1,240,031**	**2,378,395**	**(1,453,045)**	**49,317,582**	**513,617**	**49,831,199**	**5,279**	**49,836,478**

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements

BANCO SANTANDER (BRASIL) S.A.

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
	(Thousands of Brazilian Reais)	
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated profit for the year	2,378,626	1,902,999
Adjustments to profit	5,108,513	4,211,636
Depreciation of tangible assets	*301,731*	*237,695*
Amortization of intangible assets	*544,274*	*342,051*
Impairment losses on other assets (net)	*52,002*	*227,533*
Impairment losses on loans and receivables and provisions (net)	*5,332,962*	*3,376,255*
Gains (net) on disposal of tangible assets and investments	*(6,611)*	*(861)*
Share of results of entities accounted for using the equity method	*(112,330)*	*(5,884)*
Taxes	*(1,003,515)*	*34,847*
	7,487,139	**6,114,635**
Net increase/decrease in operating assets:	**(38,972,480)**	**3,472,971**
Brazilian central bank compulsory deposits	(958,826)	(1,257,825)
Financial assets held for trading	(1,450,457)	10,700,999
Other financial assets at fair value through profit or loss	(3,927,155)	(1,647,806)
Available-for-sale financial assets	(3,979,372)	9,527,782
Loans and receivables	(27,988,641)	(14,078,839)
Other assets	(668,029)	228,660
Net increase/decrease in operating liabilities:	**18,275,075**	**5,856,990**
Financial liabilities held for trading	5,394,798	2,332,780
Other financial liabilities at fair value through profit or loss	(382,909)	690,285
Financial liabilities at amortized cost	15,048,503	6,760,404
Other liabilities	(1,785,317)	(3,926,479)
Total net cash flows from operating activities(1)	**(13,210,266)**	**15,444,596**
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Investments	(2,791,665)	(1,570,030)
Tangible assets	*(2,103,308)*	*(326,858)*
Intangible assets	*(688,357)*	*(1,243,172)*
Net cash received on acquisition of subsidiary	12,147,982	—
Divestments	600,613	59,902
Tangible assets	*600,613*	*59,902*
Total net cash flows from investing activities(2)	**9,956,930**	**(1,510,128)**
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Capital increase	800,000	607,043
Issuance of subordinated liabilities	651,000	—
Issuance of other long-term liabilities	12,148,373	2,370,030
Dividends paid	(1,502,647)	(900,010)
Redemption of subordinated liabilities	—	—
Redemption of other long-term liabilities	(8,378,657)	(1,918,130)
Increase/Decrease in minority interests	—	—
Total net cash flows from financing activities(3)	**3,718,069**	**158,933**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS(1+2+3)	**464,733**	**14,093,401**
Cash and cash equivalents at beginning of year	**16,286,137**	**2,192,736**
Cash and cash equivalents at end of year	**16,750,870**	**16,286,137**
Non-cash transactions:		
Loans transferred to foreclosed assets	166,579	73,348
Shares issued in connection with acquisition of Banco ABN AMRO Real S.A. and ABN AMRO Brasil Dois Participações S.A.	38,920,753	—
Dividends and interest on capital declared but not paid	1,413,748	1,463,350
Supplemental information:		
Interest received	22,468,869	12,926,559
Interest paid	11,952,981	7,108,238
Taxes paid	918,677	392,791

The accompanying Notes and Appendix I are an integral part of these consolidated financial statements

BANCO SANTANDER (BRASIL) S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Thousands of Brazilian Reais)

BANCO SANTANDER (BRASIL) S.A.

Notes to the consolidated financial statements
for the year ended December 31, 2008 and 2007

1. Introduction, basis of presentation of the consolidated financial statements and other information

a) Introduction

Banco Santander (Brasil) S.A. (the "Bank" or "Santander"), indirectly controlled by Banco Santander, S.A., with headquarters in Spain (Banco Santander Spain), is the lead institution of the financial and non-financial conglomerate with the Brazilian Central Bank, established as a corporation, with main offices at Rua Amador Bueno, 474, Santo Amaro, São Paulo, and operates as a multipleservice bank, conducting operations such as commercial, foreign exchange, investment, credit and financing and mortgage loan, leasing portfolios and, through related entities, insurance, pension plan, capitalization, leasing, asset management, and securities and insurance brokerage operations. Transactions are conducted within the context of a conglomerate of financial institutions that operate on an integrated basis in the financial markets.

The Bank was formed as the result of the reorganization of the Brazilian banking interests of the Santander Group in 2006. Prior to August 31, 2006, the Santander Group held interests, directly and indirectly, in four separate entities through which it conducted its banking operations in Brazil: Banco Santander Brasil, S.A., Banco Santander Meridional S.A., Banco Santander S.A. and Banco do Estado de São Paulo S.A. — Banespa. On August 4, 2006, Banco Santander Meridional S.A. was renamed Banco Santander Banespa S.A. and on August 31, 2006, the Santander Group reorganized its banking operations in Brazil pursuant to which Banco Santander Brasil, S.A., Banco Santander S.A. and Banco do Estado de São Paulo S.A. — Banespa were contributed to the newly-denominated Banco Santander Banespa S.A., which was subsequently renamed Banco Santander (Brasil) S.A. (the "2006 Corporate Reorganization").

As discussed in Note 3, Banco ABN AMRO Real S A. (Banco Real) and ABN AMRO Brasil Dois Participações S.A. ("AAB Dois Par") and their respective subsidiaries were consolidated by the Bank in August 2008, in a capital increase approved in the Extraordinary Stockholders' Meeting held on August 29, 2008, resulting in the third-largest private financial conglomerate (based on total assets) in Brazil.

b) Basis of presentation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements for the year ended December 31, 2008 and 2007 are the first to be prepared in accordance with IFRS, with a date of first implementation of January 1, 2007 (opening balance sheet). The statutory financial statements have been prepared locally in Brazil in accordance with accounting practices established by Brazilian Corporate Law and standards established by the National Monetary Council (CMN), the Brazilian Central Bank (BACEN) and the Brazilian Securities Commission (CVM), the National Council of Private Insurance (CNSP) and the Superintendency of Private Insurance (SUSEP). Hereafter it shall be referred to as "Brazilian GAAP".

Note 45 to the consolidated financial statements contains the reconciliation of the consolidated balance sheet balances at the beginning and end of the year ended December 31, 2007 and 2008 and the related results — in order to reflect the related balances for the mentioned periods under IFRS.

The Notes to the consolidated financial statements contain supplementary information to that presented in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement. The Notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and breakdowns of these financial statements.

All accounting policies and measurement bases with a material effect on the consolidated financial statements were applied in their preparation.

Adoption of new standards and interpretations

The following standards and interpretations came into force and were adopted by the Bank in 2008:

- *IFRIC 11 IFRS 2* — Group and Treasury Share Transactions: in accordance with this interpretation, when an entity receives services as consideration for rights to its own equity instruments, the transaction should be accounted for as equity-settled, regardless of how the equity instruments needed are obtained. Where a subsidiary grants rights to equity instruments of its parent to its employees, the subsidiary accounts for the transaction as a cash-settled share-based payment transaction.

- *IFRIC 14 IAS 19* — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: this interpretation provides guidance on determining the amount of any post employment benefit surplus that could be recognized as an asset on the balance sheet, how a minimum funding requirement affects that measurement, and when a minimum funding requirement can create an onerous obligation that should be recognized as a liability in addition to that otherwise recognized under IAS 19.

- *IFRIC 12* — Service Concession Arrangements: this interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. The adoption of this interpretation did not have effects on the consolidated financial statements.

- *Amendments to IAS 39 and IFRS 7:* the approved amendments permit the reclassification of certain financial assets — debt and equity instruments that meet certain conditions — from financial assets held for trading to available for sale financial assets and held-to-maturity investments. They do not permit the reclassification of financial liabilities, derivatives and financial assets recognized initially as at fair value through profit or loss or the reclassification of instruments from other portfolios to the held-for-trading portfolio. In 2008 and 2007 the Bank did not perform any reclassifications of this kind.

- *IFRS 8 Operating Segments:* this standard replaces IAS 14 and requires the amount reported for each segment item to be the measure used internally and reported to the chief operating decision maker for the purposes of allocating resources to that segment and assessing its performance.

With the exception of IFRS 8, whose impact is provided at Note 42, the other standards and interpretations that came into force and were adopted by the Bank in 2008, further described above, did not have a material impact on the financial statements.

Standards and interpretations effective subsequent to December 31, 2008

The Bank has not yet adopted the following new or revised IFRS or Interpretations, which have been issued but their effective date is subsequent to the date of these financial statements:

- *Revision of IAS 23 Borrowing Costs:* the amendments to IAS 23 eliminate the option to recognize all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalized as part of the cost of that asset.

- *Revision of IAS 1 Presentation of Financial Statements:* introduces certain changes in the presentation of financial statements, including changes to the titles of individual financial statements, since balance sheet is now referred to as a statement of financial position. The statement of changes in equity will only include changes in equity arising from transactions with owners acting in their capacity as owners. As regards "non-owner" changes (e.g. transactions with third parties or income and expenses recognized directly in equity), entities are no longer permitted to present items of other comprehensive income separately in the statements of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity. All items of income and expense (including those recognized outside of profit or loss) must be presented either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement and a statement of comprehensive income). IAS 1 also introduces new reporting requirements when the entity applies a change in accounting policy retrospectively, makes a restatement or reclassifies items in previously issued statements.

- *Amendment to IFRS 2 — Share-based Payment:* the objective of the amendment is basically to clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement.

- *Amendments to IAS 32 and IAS 1 — Puttable Financial Instruments and Obligations Arising on Liquidation:* the amendments address the classification of puttable financial instruments and obligations arising only on liquidation, with the object of providing a "short-term, limited scope amendment" designed to avoid outcomes arising under the general principles of IAS 32 that were counter-intuitive. Following the revisions, puttable financial instruments are presented as equity provided that they meet certain criteria including that of being the most subordinated class, and provided that they evidence a residual interest in the net assets of the entity.

- *Amendments to IFRS 1 and IAS 27, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate:* this amendment refers to separate financial statements and, therefore, is not applicable to consolidated financial statements.

- *IFRIC 13 Customer Loyalty Programmes:* this interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards as part of a sales transaction, such as credit card reward schemes.

- *Revision of IFRS 3 Business Combinations and Amendment to IAS 27 Consolidated and Separate Financial Statements:* introduce significant changes in several matters relating to accounting for business combinations, and only applied prospectively. These changes include most notably the following: acquisition costs must be expensed, rather than recognized as an increase in the cost of the business combination; in step acquisitions the acquirer must remeasure at fair value the investment held prior to the date that control is obtained; and there is an option to measure at fair value the minority interests of the acquiree, as opposed to the single current treatment of measuring them as the proportionate share of the fair value of the net assets acquired.

- *Amendments to IAS 39, Eligible Hedged Items:* this amendment establishes that inflation may only be designated as a hedged item if it is a contractually specified portion of the cash flows to be hedged. Only the intrinsic value and not the time value of a purchased option may be used as a hedging instrument.

- *IFRIC 15 Agreements for the Construction of Real Estate:* this interpretation clarifies the accounting of revenue and expenses associated by entities that undertake the construction of real estate directly or through subcontractors.

- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation:* this interpretation clarifies the following matters: firstly, the exposure to foreign exchange differences between the functional currency of the foreign operation and the presentation currency of the parent cannot be designated as a hedged risk, and only the foreign currency exposure arising between the functional currency of the parent and that of its foreign operation qualifies for hedge accounting; secondly, the hedging instrument used to hedge the net investment may be held by any entity within the group, not necessarily by the parent of the foreign operation; and, lastly, it addresses how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item on disposal of the foreign operation.

- *IFRIC 17 Distributions of Non-cash Assets to Owners:* this interpretation addresses the accounting treatment when an entity distributes assets other than cash as dividends to its shareholders, although its scope does not include distributions of assets within a group or between jointly controlled entities. The interpretation requires an entity to measure the dividend payable at the fair value of the assets to be distributed and to recognize any difference with respect to the carrying amount of the asset in profit or loss.

- *IFRIC 18 Transfers of Assets from Customers:* this interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The basic principle of IFRIC 18 is that when the item of property, plant and equipment transferred from a customer meets the definition of an asset under the IASB Framework from the perspective of the recipient, the recipient must recognise the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the utility or other recipient entity.

The Bank does not expect the adoption of the above-mentioned standards and interpretations to have a material effect on the consolidated financial statements taken as a whole.

c) Estimates made

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement basis and estimates used by the directors of the Bank in preparing the consolidated financial statements.

In the consolidated financial statements estimates were occasionally made by the senior executives of the Bank and of the consolidated entities in order to quantify certain assets, liabilities, income, expenses and commitments reported herein.

These estimates relate basically to the following:

- Fair value measurement of certain financial instruments

  The fair value of a financial instrument is the value at which it could be bought or sold in a current transaction between knowledgeable, willing parties on an arm's length basis. If a quoted price in an active market is available for an instrument, the fair value is calculated based on that price.

If there is no market price available for a financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving the same or similar instruments and, in the absence thereof, on the basis of valuation techniques, using valuation techniques commonly used by the financial markets as follows:

- The present value method for valuing financial instruments permitting static hedging (principally, forwards and swaps) and loans and advances. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data.

- The Black-Scholes model for valuing financial instruments requiring dynamic hedging (principally structured options and other structured instruments). Certain observable market inputs are used in the Black-Scholes model to generate variables such as the bid-offer spread, exchange rates, volatility, correlation between indexes and market liquidity, as appropriate.

  - Each of the present value method and Black-Scholes models is used for valuing financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors.

- We use dynamic models similar to those used in the measurement of interest rate risk for measuring credit risk of linear instruments (such as bonds and fixed-income derivatives

The methodology used for fair value measurements of certain financial instruments is further described in Note 2.d.

- The allowance for loan losses

  We cover losses inherent in debt instruments not measured at fair value taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods that have not yet been allocated to specific transactions.

  We use the concept of incurred loss to quantify the cost of the credit, using statistical models that consider the following three factors: "exposure at default", "probability of default" and "loss given default", as further discussed in Note 2.g.

- The impairment losses on certain assets other than loans (including goodwill and other intangible assets)

  Certain assets, including goodwill, other intangible assets and equity method investments are subject to impairment review. We record impairment charges when we believe there is objective evidence of impairment, or that the cost of the assets may not be recoverable. Assessment of what constitutes impairment is a matter of significant judgment.

  - Tangible assets are further discussed in Note 2.k,

  - Intangible assets are further discussed in Note 2.m

  - Other assets are further discussed in Note 2.n

- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations;

  The Bank provides pension plans in the form of both defined contribution plans and defined benefit plans, in accordance with IAS 19.

The actuarial valuation is dependent upon a series of assumptions; the principal ones being:

- assumed interest rates;
- mortality tables;
- annual social security pension revision rate;
- price inflation;
- annual salary growth rate, and
- the method used to calculate vested commitments to current employees.

Post-employment benefits are further discussed in Note 2.t.

- The recognition and measurement of deferred tax items.

  As discussed in Note 2.w, deferred tax assets are only recognized for temporary differences to the extent that it is considered probable that the combined entities will have sufficient future taxable profits against which the deferred tax assets can be utilized. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognized if it is considered probable that the combined entities will have sufficient future taxable profits against which they can be utilized.

  In accordance with the current regulation, the expected realization of the Combined Companies' tax credits, as shown in Note 23, is based on the projection of future income and a technical studies.

These estimates are based on current expectations and estimates on projections of future events and trends, which may affect the consolidated financial statements. The principal assumptions that may affect these estimates, in addition to those previously mentioned above, relate to the following factors:

- Changes in deposit amounts, customer basis and defaults by borrowers
- Changes in interest rates
- Changes in inflation rates
- Government regulation and tax matters,
- Adverse legal or regulatory disputes or proceedings,
- Credit, market and other risks of lending and investment activities,
- Changes in market values of Brazilian securities, particularly Brazilian government securities,
- Changes in regional, national and international business and economic conditions

d) Capital management

New rules for the calculation of the Bank's capital adequacy ratio according to the method established by the Basel II Agreement were introduced in July 2008, using a new methodology, analysis and credit risk and management and operational procedures. Among the alterations of note: (a) Credit Risk — the weighting of determined assets, including consumer credit, which is now allocated less capital, the mitigation of risk using guarantees and the inclusion of capital commitments for credit; (b) market risks — the introduction of defined capital requirements for exposure subject to variations in foreign currency coupon rates, price indices and interest rates; commodity prices and shares classified in the trading portfolio; interest rates not classified in the trading portfolio; and (c) Operational — specific capital requirement (see Note 27).

Santander's Basel II Capital Adequacy Ratio is calculated based on Brazilian GAAP figures as required by the Brazilian Central Bank.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the consolidated financial statements were as follows:

a) Foreign currency transactions

The functional currency used for the operations is the Real. The assets and liabilities that are monetary items and are converted by exchange rates at the end of the period, the non-monetary items are measured at historical foreign exchange rates at the date of such transactions and the income statement balances are converted by the average exchange rates for the period.

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognized at their net amount under "Exchange differences" in the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognized in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognized under "Valuation adjustments — Exchange differences".

b) Basis of consolidation

i. Subsidiaries

"Subsidiaries" are defined as entities over which the Bank has the capacity to exercise control; this capacity is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, as in the case of agreements with shareholders of the investee, the Bank is granted control. Control is the power to govern the financial and operating policies of an entity, as stipulated by the law, the Bylaws or agreement, so as to obtain benefits from its activities.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and transactions between consolidated entities are eliminated on consolidation.

On acquisition of a subsidiary, its assets, liabilities and contingent liabilities are recognized at fair value at the date of acquisition. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognized as goodwill (see Note 13). Negative differences are charged to income on the date of acquisition.

Additionally, the share of third parties of the Bank's equity is presented under "Minority interests" in the consolidated balance sheet (see Note 24). Their share of the profit for the year is presented under "Profit attributable to minority interests" in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

The Appendix I contains significant information on these entities.

ii. Interests in joint ventures (jointly controlled entities) and associates

"Joint ventures" are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities ("venturers") acquire interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control.

In the consolidated financial statements, investments in joint ventures and associates are accounted for using the equity method, i.e. at the Bank's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. In the case of transactions with a joint venture or associate, the related profits or losses are eliminated to the extent of the Bank's investment in the joint venture or associate.

iii. Special purpose entities

When the Bank incorporates special purpose entities, or holds ownership interests therein, to enable its customers to access certain investments, or for the transfer of risks or other purposes, it determines, using internal criteria and procedures, and taking into consideration the applicable legislation, whether control (as defined above) exists and, therefore, whether these entities should be consolidated. These criteria and procedures take into account, inter alia, the risks and rewards retained by the Bank and, accordingly, all relevant matters are taken into consideration, including any guarantees granted or any losses associated with the collection of the related assets retained by the Bank. These entities include the securitization special purpose vehicles, which are fully consolidated in the case of the SPVs over which, based on the aforementioned analysis, it is considered that the Bank continues to exercise control.

iv. Business combinations, acquisitions and disposals

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities and is accounted for in accordance with IFRS 3, "Business Combinations".

Business combinations are performed whereby the Bank obtains control over an entity are recognized for accounting purposes as follows:

- The Bank measures the cost of the business combination, defined as the fair value of the assets given, the liabilities incurred and the equity instruments issued, if any.
- The fair values of the assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets which might not have been recognized by the acquiree, are estimated and recognized in the consolidated balance sheet.
- Any positive difference between the net fair value of the assets, liabilities and contingent liabilities of the acquiree and the cost of the business combination is recognized as Goodwill based on future economic benefits.

In 2008, the Bank was part to a corporate restructuring considered as a Business Combination, as further described in Note 3. In 2007 the Bank was not a part of any significant business combination, acquisition or disposal with third parties.

c) Definitions and classification of financial instruments

i. Definitions

A "financial instrument" is any contract that gives rise to a financial asset of one entity and, simultaneously, to a financial liability or equity instrument of another entity.

An "equity instrument" is any agreement that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A "financial derivative" is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

"Hybrid financial instruments" are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in subsidiaries, jointly controlled entities and associates (see Note 11).
- Rights and obligations under employee benefit plans (see Note 21).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as "Non-current assets held for sale" or they relate to "Cash and balances with the Brazilian Central Bank", "Hedging derivatives" and "Investments", which are reported separately.

Financial assets are included for measurement purposes in one of the following categories:

- Financial assets held for trading (at fair value through profit or loss): this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.
- Other financial assets at fair value through profit or loss: this category includes hybrid financial assets not held for trading that are measured entirely at fair value and financial assets not held for trading that are included in this category in order to obtain more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies ("accounting mismatches") that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases, or because a group of financial assets or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Bank's key management personnel.

  Financial instruments included in this category (and "Other financial liabilities at fair value through profit or loss") are permanently subject to an integrated and consistent system of measuring, managing and controlling risks and returns that enables all the financial instruments involved to be monitored and identified and allows the effective reduction of risk to be checked. Financial assets may only be included in this category on the date they are acquired or originated.

- *Available-for-sale financial assets:* this category includes debt instruments not classified as "Held-to-maturity investments", "Loans and receivables" or "Financial assets at fair value through profit or loss", and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as "Financial assets held for trading" or as "Other financial assets at fair value through profit or loss".

- *Loans and receivables:* this category includes financing granted to third parties, based on their nature, irrespective of the type of borrower and the form of financing, including finance lease transactions in which the consolidated entities act as lessors.

The consolidated entities generally intend to hold the loans and credits granted by them until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortized cost (which includes the required adjustments to reflect estimated impairment losses).

- *Held-to-maturity investments:* this category includes debt instruments traded in an active market, with fixed maturity and with fixed or determinable payments, for which the Bank has both the intention and proven ability to hold to maturity.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the consolidated balance sheet:

- *Cash and balances with the Brazilian Central Bank:* cash balances and balances receivable on demand relating to deposits with the Brazilian Central Bank.

- *Loans and advances:* includes the debit balances of loans granted by the Bank, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favor of the Bank, such as checks drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organized markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originated in banking transactions and services, such as the collection of rentals and similar items:

- *Loans and advances to credit institutions:* credit of any nature in the name of credit institutions.

- *Loans and advances to customers:* includes the debit balances of all the remaining credit and loans granted by the Bank, other than those represented by securities, including money market operations through central counterparties.

- *Debt instruments:* bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- *Other equity instruments:* financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, unless they are investments in subsidiaries, jointly controlled entities or associates. Investment fund units are included in this item.

- *Trading derivatives:* includes the fair value in favor of the Bank of derivatives which do not form part of hedge accounting.

- *Hedging derivatives:* includes the fair value in favor of the Bank of derivatives designated as hedging instruments in hedge accounting.

- *Investments:* includes the investments in the share capital of associates.

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): this category includes the financial liabilities issued for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not considered to qualify for hedge accounting and financial liabilities arising from the outright sale of financial assets purchased under resale agreements or borrowed ("short positions").
- *Other financial liabilities at fair value through profit or loss:* financial liabilities are included in this category when more relevant information is obtained, either because this eliminates or significantly reduces recognition or measurement inconsistencies ("accounting mismatches") that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Bank's key management personnel.
- *Financial liabilities at amortized cost:* financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the funding-taking activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet:

- *Deposits from the Brazilian Central Bank:* deposits of any nature received from the Brazilian Central Bank.
- *Deposits from credit institutions:* deposits of any nature, including credit and money market operations received in the name of credit institutions.
- *Customer deposits:* includes all repayable balances received in cash by the Bank, other than those represented by marketable securities, money market operations through central counterparties, subordinated liabilities and deposits from the Brazilian Central Bank and credit institutions.
- *Marketable debt securities:* includes the amount of bonds and other debt represented by marketable securities, other than subordinated liabilities.
- *Trading derivatives:* includes the fair value, with a negative balance for the Bank, of derivatives which do not form part of hedge accounting.
- *Short positions:* includes the amount of financial liabilities arising from the outright sale of financial assets purchased under reverse repurchase agreements or borrowed.
- *Subordinated liabilities:* amount of financing received which, for the purposes of payment priority, ranks behind ordinary debt. This category also includes the financial instruments issued by the Bank which, although equity for legal purposes, do not meet the requirements for classification as equity.
- *Other financial liabilities:* includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as doubtful.

- *Hedging derivatives:* includes the fair value of the Bank's liability in respect of derivatives designated as hedging instruments in hedge accounting.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognized at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss are, adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each period-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their disposal, except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

The "fair value" of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

All derivatives are recognized in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognized as an asset and if the fair value is negative, they are recognized as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognized in "Gains/losses on financial assets and liabilities" in the consolidated income statement. Specifically, the fair value of standard financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure over the counter "OTC" derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets: "net present value" (NPV), option pricing models and other methods.

"Loans and receivables" and "Held-to-maturity investments" are measured at amortized cost using the effective interest method. "Amortized cost" is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and the cumulative amortization (taken to the income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortized cost furthermore includes any reductions for impairment or uncollectibility. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognized.

The "effective interest rate" is the discount rate that exactly matches the initial amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recognized represent, in all material respects, the Bank's maximum exposure to credit risk at each reporting date. Also, the Bank has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under leasing and renting agreements, assets acquired under repurchase agreements, securities loans and derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortized cost, as defined above, except for those included under "Financial liabilities held for trading" and "Other financial liabilities at fair value through profit or loss" and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at 2008 and 2007 year-end, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Bank to determine their fair value:

	Thousands of Reais					
	2008			2007		
	Published Price Quotations in Active Markets	Internal Models	Total	Published Price Quotations in Active Markets	Internal Models	Total
Financial assets held for trading	959,609	19,026,391	19,986,000	546,243	11,746,258	12,292,501
Other financial assets at fair value through profit or loss	—	5,574,961	5,574,961	—	1,647,806	1,647,806
Available-for-sale financial assets	1,145,483	29,590,198	30,735,681	1,301,186	8,002,271	9,303,457
Hedging derivatives (assets)	—	106,321	106,321	—	—	—
Financial liabilities held for trading	45,781	11,163,819	11,209,600	96,584	4,553,721	4,650,305
Other financial liabilities at fair value through profit or loss	—	307,376	307,376	—	690,285	690,285
Hedging derivatives (liabilities)	—	264,771	264,771	—	—	—

Financial instruments at fair value, determined on the basis of public price quotations in active markets (Level 1), include government debt securities, private-sector debt securities, securitized assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set using its own internal models. In most cases, these models use data based on observable market parameters as significant inputs (Level 2). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data and extrapolation techniques. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

The main techniques used at December 31, 2008 by the Bank's internal models to determine the fair value of the financial instruments detailed in the foregoing table are as follows:

- In the valuation of financial instruments permitting static hedging (basically forwards and swaps) and in the valuation of loans and advances to customers, the "present value" method is used. Estimated future cash flows are discounted using the interest rate curves of the related currencies. The interest rate curves are generally observable market data.
- In the valuation of financial instruments requiring dynamic hedging (basically structured options and other structured instruments), the Black-Scholes model is normally used. Where appropriate, observable market inputs are used to obtain factors such as the bid-offer spread, exchange rates, volatility, correlation between indexes and market liquidity.
- In the valuation of certain financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors, the present value method (futures) and the Black-Scholes model (plain vanilla options) are used. The main inputs used in these models are basically observable market data, including the related interest rate curves, volatilities, correlations and exchange rates.
- In the case of linear instruments (e.g. credit risk and fixed-income derivatives), credit risk is measured using dynamic models similar to those used in the measurement of interest rate risk. In the case of non-linear instruments, if the portfolio is exposed to credit risk (e.g. credit derivatives), the joint probability of default is determined using the Standard Gaussian Copula model. The main inputs used to determine the underlying cost of credit of credit derivatives are quoted credit risk premiums and the correlation between the quoted credit derivatives of various issuers.

The fair value of the financial instruments arising from the aforementioned internal models takes into account, inter alia, the contract terms and observable market data, which include interest rates, credit risk, exchange rates, the quoted market price of raw materials and shares, volatility and prepayments. The valuation models are not significantly subjective, since these methodologies can be adjusted and gauged, as appropriate, through the internal calculation of fair value and the subsequent comparison with the related actively traded price.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Level 2) at December 31, 2008:

	Thousands of Reais		
	Fair Values Calculated Using Internal Models	Valuation Techniques	Main Assumptions
ASSETS:			
Financial assets held for trading	**19,026,391**		
Debt and equity interests	9,731,383	Present Value Method	Observable market data (interest and discount rates)
Trading derivatives	9,295,008		
Swaps	*5,344,367*	Present Value Method	Observable market data, liquidity (interest and exchange rates)
Exchange rate options	*1,898,276*	Black-Scholes Model	Observable market data, liquidity (exchange rates)
Interest rate options	*362,544*	Black-Scholes Model	Observable market data, liquidity, correlation (interest rates)
Exchange rate futures	*1,689,821*	Present Value Method	Observable market data, liquidity (exchange rates)
Hedging derivatives	**106,321**		
Swaps	*106,321*	Present Value Method	Observable market data (interest rates)
Other financial assets at fair value Through profit or loss	**5,574,961**		
Loans and advances to credit institutions	4,046,898	Present Value Method	Observable market data (interest and discount rates)
Loans and advances to customers	1,434,789	Present Value Method	Observable market data (interest and discount rates)
Debt and equity interests	93,274	Present Value Method	Observable market data (interest and discount rates)
Available-for-sale financial assets	**29,590,198**		
Debt and equity interests	29,590,198	Present Value Method	Observable market data (interest and discount rates)
LIABILITIES:			
Financial liabilities held for trading	**11,163,819**		
Trading derivatives	11,163,819		
Swaps	*7,689,532*	Present Value Method	Observable market data, liquidity (interest and exchange rates)
Exchange rate options	*2,610,758*	Black-Scholes Model	Observable market data, liquidity (exchange rates)
Interest rate options	*490,530*	Black-Scholes Model	Observable market data, liquidity, correlation (interest rates)
Interest rate and investment futures	*372,999*	Present Value Method	Observable market data (interest rates)
Hedging derivatives	**264,771**		
Swaps	*264,771*	Present Value Method	Observable market data (interest and exchange rates)
Other financial liabilities at fair value through profit or loss	**307,376**	Present Value Method	Observable market data (interest and discount rates)
TOTAL	**66,033,837**		

The use of observable market data assumes that the markets in which the Bank operates are functioning efficiently and, therefore, that these data are representative. The main assumptions used in the measurement of the financial instruments included in the foregoing table that were valued by means of internal models employing unobservable market data are as follows:

- *Correlation:* the assumptions relating to the correlation between the value of quoted and unquoted assets are based on historical correlations between the impact of adverse changes in market variables and the corresponding valuation of the associated unquoted assets. The measurement of the assets will vary depending on whether a more or less conservative scenario is selected.

- *Dividends:* the estimates of the dividends used as inputs in the internal models are based on the expected dividend payments of the issuers. Since the dividend expectations can change or vary depending on the source of the price (normally historical data or market consensus for the measurement of options) and the companies' dividend policies can vary, the valuation is adjusted to the best estimate of the reasonable dividend level expected in more or less conservative scenarios.

- *Liquidity:* the assumptions include estimates in response to market liquidity. For example, they take market liquidity into consideration when very long-term estimates of exchange rates or interest rates are used, or when the instrument is part of a new or developing market where, due to the absence of market prices that reflect a reasonable price for these products, the standard valuation methods and the estimates available might give rise to less precise results in the measurement of these instruments at that time.

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognized in the consolidated income statement, distinguishing between those arising from the accrual of interest and similar items -which are recognized under "Interest and similar income" or "Interest expense and similar charges", as appropriate- and those arising for other reasons, which are recognized at their net amount under "Gains/losses on financial assets and liabilities".

Adjustments due to changes in fair value arising from Available-for-sale financial assets are recognized temporarily in equity under "Valuation adjustments — Available-for-sale financial assets". Items charged or credited to this account remain in the Bank's consolidated equity until the related assets are derecognized, whereupon they are charged to the consolidated income statement.

v. Hedging transactions

The consolidated entities use financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Bank entities' own positions and assets and liabilities ("hedging derivatives"); and iii) to obtain gains from changes in the prices of these derivatives ("trading derivatives").

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject ("fair value hedge");

b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions ("cash flow hedge");

c. The net investment in a foreign operation ("hedge of a net investment in a foreign operation").

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective ("prospective effectiveness").

b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position ("retrospective effectiveness").

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effective hedge was expected to be achieved and measured, provided that this is consistent with the Bank's management of own risks.

The changes in value of financial instruments qualifying for hedge accounting are recognized as follows:

a. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items (attributable to the type of risk being hedged) are recognized directly in the consolidated income statement.

b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognized temporarily in equity under "Valuation adjustments — Cash flow hedges" until the forecast transactions occur, when it is recognized in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability. The ineffective portion of the change in value of hedging derivatives is recognized directly in the consolidated income statement.

c. The ineffective portion of the gains and losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation are recognized directly under "Gains/losses on financial assets and liabilities" in the consolidated income statement.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognized on the hedged item are transferred to profit or loss at the effective interest rate re-calculated at the date of hedge discontinuation. The adjustments must be fully amortized at maturity.

When cash flow hedges are discontinued, any cumulative gain or loss on the hedging instrument recognized in equity under "Valuation adjustments" (from the period when the hedge was effective) remains recognized in equity until the forecast transaction occurs at which time it is recognized in profit or loss, unless the transaction is no longer expected to occur, in which case any cumulative gain or loss is recognized immediately in profit or loss.

e) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

1. If the Bank transfers substantially all the risks and rewards to third parties -unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitization of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognized and any rights or obligations retained or created in the transfer are recognized simultaneously.

2. If the Bank retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognized and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognized:

    a. An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost.

    b. The income from the transferred financial asset not derecognized and any expense incurred on the new financial liability.

3. If the Bank neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset-sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases-, the following distinction is made:

    a. If the transferor does not retain control of the transferred financial asset, the asset is derecognized and any rights or obligations retained or created in the transfer are recognized.

    b. If the transferor retains control, it continues to recognize the transferred financial asset for an amount equal to its exposure to changes in value and recognizes a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognized when the rights on the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognized when the obligations they generate have been extinguished or when they are acquired, with the intention either to cancel them or to resell them.

f) Regular way purchases of financial assets

Regular way purchases of financial assets are recognized on trade date. The assets are derecognized when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

g) Impairment of financial assets

i. Definition

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.
- In the case of equity instruments, mean that their carrying amount cannot be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognized impairment losses is recognized in the consolidated income statement for the period in which the impairment is reversed or reduced.

Balances are deemed to be impaired, and the interest accrual is suspended, when there are reasonable doubts as to their full recovery and/or the collection of the related interest for the amounts and on the dates initially agreed upon, after taking into account the guarantees received by the consolidated entities to secure (fully or partially) collection of the related balances. Collections relating to impaired loans and advances are used to recognize the accrued interest and the remainder, if any, to reduce the principal amount outstanding. The amount of the financial assets that would be deemed to be impaired had the conditions thereof not been renegotiated is not material with respect to the Bank's financial statements taken as a whole.

When the recovery of any recognized amount is considered unlikely, the amount is written off, without prejudice to any actions that the consolidated entities may initiate to seek collection until their contractual rights are extinguished.

ii. Debt instruments carried at amortized cost

The amount of an impairment loss incurred on a debt instrument measured at amortized cost is equal to the difference between its carrying amount and the present value of its estimated future cash flows, and is presented as a reduction of the balance of the asset adjusted.

In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument; including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The impairment loss takes into account the likelihood of collecting accrued interest receivable.
- The various types of risk to which each instrument is subject, and
- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

Specifically in regards to impairment losses resulting from materialization of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency when there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons.

The Bank has certain policies, methods and procedures for covering its credit risk arising both from insolvency allocable to counterparties.

These policies, methods and procedures are applied in the granting, examination and documentation of debt instruments, and contingent liabilities and commitments, the identification of their impairment and the calculation of the amounts necessary to cover the related credit risk.

With respect to the allowance for loss arising from credit risk, the Bank makes the following distinction:

a. Specific allowance:

The Bank uses a proxy for specific allowance, as further explained below. These rules are used to calculate the minimum allowance requirements. We then evaluate the need for further provision, as considered necessary, following the requirements of IAS 39, based on our historical experience of impairment and other circumstances known at the time of assessment.

We classify our credit transactions according to their level of risk and the number of days such transaction is past due. Such credit classifications are determined in accordance with:

- The conditions of the debtor and any guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, administration, corporate governance and quality of internal controls, payments history, the sector in which they are active, contingencies and credit limits; and

- The characteristics of the transaction, such as its nature and purpose, type, sufficiency and level of liquidity of collateral and the total amount of the credit.

Our rating and risk management systems may be reviewed by both the Central Bank and the Santander Group's internal auditors. Our management has not had any disputes with the Central Bank or the Santander Group regarding our risk management operations.

b. Allowance for incurred losses not specifically identified:

The Bank covers its losses inherent in debt instruments not measured at fair value through profit or loss and in contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods that have not yet been allocated to specific transactions.

The Bank uses the concept of incurred loss to quantify the cost of the credit risk and include it in the calculation of the risk-adjusted return of its transactions.

Incurred loss is the expected cost of the credit risk of a transaction, that will manifest itself within a one year (business cycle) lead time from the balance sheet date considering the characteristics of the counterparty and the guarantees and collateral associated with the transaction.

The loss is calculated by using statistical models that consider the following three factors: "exposure at default", "probability of default" and "loss given default".

- Exposure at default (EAD) is the amount of risk exposure at the date of default by the counterparty.

In accordance with IFRS, the exposure at default used for this calculation is the current exposure, as reported in the balance sheet.

- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The probability of default is associated with the rating/scoring of each counterparty/transaction.

PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year. The definition of default used includes past-dues by 90 days or more and cases in which there is no default but there are doubts as to the solvency of the counterparty (subjective doubtful assets).

- Loss given default (LGD) is the loss arising in the event of default.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account the guarantees/collateral associated with the transaction, the income and expenses associated with the recovery process, and also the timing thereof and the indirect costs arising from the recovery process.

This parameter does not considered downturn adjustments.

Our methodology for determining the loans allowance for incurred losses not specifically identified intends to identify the amount of incurred losses as of the balance sheet date of loans that have not yet been identified as impaired, but that we estimate based on our past history and specific facts that will manifest within a one year lead time period from the balance sheet date. The above demonstrates those loans were having problems as of the balance sheet date. That is, what we call inherent losses in the context of our internal models in which loan loss allowances are calculated.

The approach described above is used as a general rule. However, in certain cases, as a result of its particular characteristics, this approach is not applied and alternative approaches are used:

1. Low default portfolios

In certain portfolios (credit institutions or large corporations) the number of defaults observed is very small or zero. In these cases, the Bank opted to use the data contained in the credit derivative spreads to estimate the incurred loss discounted by the market and break it down into PD and LGD.

2. Top-down units

In the exceptional cases in which the Bank does not have sufficient data to construct a sufficiently robust credit risk measurement model, the incurred loss on the loan portfolios is estimated based on a top-down approximation in which the historically observed average cost of the loan portfolios is used as the best estimate of the incurred loss. As the credit models are developed and bottom-up measurements are obtained, the top-down measurements used for these units are gradually replaced.

iii. Debt or equity instruments classified as available for sale

The amount of the impairment losses on these instruments is the positive difference between their acquisition cost (net of any principal repayment or amortization in the case of debt instruments) and their fair value, less any impairment loss previously recognized in the consolidated income statement.

When there is objective evidence at the date of measurement of these instruments that the aforementioned differences are due to permanent impairment, they are no longer recognized in equity under “Valuation adjustments — Available-for-sale financial assets” and are reclassified, for the cumulative amount at that date, to the consolidated income statement.

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognized, in the case of debt instruments, in the consolidated income statement for the year in which the reversal occurred (or in equity "Valuation adjustments — Available-for-sale financial assets" in the case of equity instruments).

iv. Equity instruments measured at cost

The impairment loss on equity instruments measured at cost is the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognized in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial assets under a non-optional resale (repurchase) agreement at a fixed price ("repos") are recognized in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under "Balances with the Brazilian Central Bank", "Loans and advances to credit institutions" or "Loans and advances to customers" ("Deposits from the Brazilian Central Bank", "Deposits from credit institutions" or "Customer deposits").

Differences between the purchase and sale prices are recognized as interest over the contract term.

i) Non-current assets held for sale

"Non-current assets held for sale" includes the carrying amount of individual items or disposal groups or items forming part of a business unit earmarked for disposal ("Discontinued operations"), whose sale in their present condition is highly probable and is expected to occur within one year from the reporting date. Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal. Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them are deemed to be non-current assets held for sale.

Non-current assets held for sale are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognized under "Gains/ (losses) on non-current assets held for sale not classified as discontinued operations" in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognized in the consolidated income statement up to an amount equal to the impairment losses previously recognized.

j) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheets and the average interest rates at 2008 and 2007 year-end is provided in Note 41.

k) Tangible assets

"Tangible assets" includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities, including tangible assets received by the Bank in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases- are presented at acquisition cost, less the related accumulated depreciation and any impairment losses (net carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The tangible asset depreciation charge is recognized in the consolidated income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Buildings for own use	4%
Furniture	10%
Fixtures	10%
Office and IT equipment	20%
Leasehold improvements	10% or up to contractual maturity

The consolidated entities assess at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated entities recognize the reversal of the impairment loss recognized in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognized in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognized in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense in the period in which they are incurred.

l) Accounting for leases

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated entities act as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee plus the guaranteed residual value -which is generally the exercise price of the purchase option of the lessee at the end of the lease term- is recognized as lending to third parties and is therefore included under “Loans and receivables” in the consolidated balance sheet.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under “Tangible assets” (see Note 12). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use and income from operating leases is recognized on a straight-line basis under “Other operating income” in the consolidated income statement.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to “Other general administrative expenses” in their consolidated income statements.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated entities. Only assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognized.

Intangible assets are recognized initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortization and any accumulated impairment losses.

i. Goodwill

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor’s share of the net fair value of the associate’s identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3, Business Combinations. Therefore:

- goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor’s share of the associate’s profits or losses.
- any excess of the investor’s share of the net fair value of the associate’s identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor’s share of the associate’s profit or loss in the period in which the investment is acquired.

Goodwill — which is only recognized when it has been acquired for consideration — represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognized.

At the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and any impairment is written down with a charge to “Impairment losses on other assets (net) — Goodwill and other intangible assets” in the consolidated income statement.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

"Other intangible assets" includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

Other intangible assets can have an indefinite useful life -when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities- or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortized, but rather at the end of each reporting period the consolidated entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortized over those useful lives using methods similar to those used to depreciate tangible assets.

The intangible asset amortization charge is recognized under "Depreciation and amortization" in the consolidated income statement.

In both cases the consolidated entities recognize any impairment loss on the carrying amount of these assets with a charge to "Impairment losses on goodwill and other intangible assets" in the consolidated income statement. The criteria used to recognize the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for tangible assets (see Note 2-k).

Internally developed computer software

Internally developed computer software is recognized as an intangible asset if, among other requisites (basically the Bank's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Expenditure on research activities is recognized as an expense in the year in which it is incurred and cannot be subsequently capitalized.

n) Other assets

This item includes the balance of all prepayments and accrued income (excluding accrued interest), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity's favor, when this net amount is to be reported in the consolidated balance sheet, and the amount of any other assets not included in other items.

o) Other liabilities

"Other liabilities" includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

p) *Provisions and contingent assets and liabilities*

The directors of the consolidated entities, in preparing their respective financial statements, made a distinction between:

- *Provisions:* credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.
- *Contingent liabilities:* possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities. They include the present obligations of the consolidated entities when it is not probable that an outflow of resources embodying economic benefits will be required to settle them.
- *Contingent assets:* possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of events beyond the control of the Bank. Contingent assets are not recognized in the consolidated balance sheet or in the consolidated income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Bank's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognized in the consolidated financial statements, but must rather be disclosed in the notes.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognized. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows:

- Provisions for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to early retirees and similar obligations.
- Provisions for contingent liabilities, commitments and provisions for taxes and other legal contingencies and other provisions: include the amount of the provisions recognized to cover tax and legal contingencies and labor and civil litigation and the other provisions recognized by the consolidated entities.

q) *Equity-instrument-based employee remuneration*

Equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognized as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Bank recognizes in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognized in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognized in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

r) Recognition of income and expenses

The most significant criteria used by the Bank to recognize its income and expenses are summarized as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognized on an accrual basis using the effective interest method. Dividends received from other companies are recognized as income when the consolidated entities' right to receive them arises.

However, the recognition of accrued interest in the consolidated income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than two months past due. This interest is recognized as income, when collected, as a reversal of the related impairment losses.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognized in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognized when paid.
- Those arising from transactions or services that are performed over a period of time are recognized over the life of these transactions or services.
- Those relating to services provided in a single act are recognized when the single act is carried out.

iii. Non-finance income and expenses

These are recognized for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognized for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination and application fees, are accrued and recognized in income over the term of the loan. In the case of loan origination fees, the portion relating to the associated direct costs incurred in the loan arrangement is recognized immediately in the consolidated income statement.

s) Financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the entity, etc.

The Bank initially recognizes the financial guarantees provided on the liability side of the consolidated balance sheet at fair value, which is generally the present value of the fees, commissions and similar interest receivable from these contracts over the term thereof, and simultaneously the Bank recognizes, on the asset side of the consolidated balance sheet, the amount of the fees, commissions and interest received at the start of the transactions and the amounts receivable at the present value of the fees, commissions and interest receivable.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments measured at amortized cost.

The provisions made for these transactions are recognized under "Provisions — Provisions for contingent liabilities and commitments" in the consolidated balance sheet (see Note 21).

If a specific provision is required for financial guarantees, the related unearned commissions recognized under "Financial liabilities at amortized cost — Other financial liabilities" in the consolidated balance sheet are reclassified to the appropriate provision.

t) Assets under management and investment and pension funds managed by the Bank

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in "Fee and commission income" in the consolidated income statement. Note 41-b contains information on the third-party assets managed by the Bank.

The investment funds and pension funds managed by the consolidated entities are not presented on the face of the Bank's consolidated balance sheet since the related assets are owned by third parties. The fees and commissions earned in the year for the services rendered by the Bank entities to these funds (asset management and custody services) are recognized under "Fee and commission income" in the consolidated income statement.

u) Post-employment benefits

The bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, the benefits and indemnity payments payable, the contributions to employee welfare systems for early retirees and the post-employment welfare benefits.

The Bank's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Bank makes pre-determined contributions (recognized in "Personnel expenses" in the consolidated income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as "defined benefit plans" (see Note 21).

Defined contribution plans

The contributions made in this connection in each year are recognized under "Personnel expenses" in the consolidated income statement. The amounts not yet contributed at each year-end are recognized, at their present value, under "Provisions — Provisions for pensions and similar obligations" on the liability side of the consolidated balance sheet.

Defined benefit plans

The Bank recognizes under "Provisions — Provisions for pensions and similar obligations" on the liability side of the consolidated balance sheet (or under "Other assets" on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets and of the net unrecognized cumulative actuarial gains and/or losses disclosed in the valuation of these obligations, which are deferred using a corridor approach, and net of the past service cost, which is deferred over time, as explained below.

"Plan assets" are defined as those that will be directly used to settle obligations and that meet the following conditions:

- They are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Bank.
- They can only be used to pay or finance post-employment benefits and cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all obligations of the plan and of the entity relating to current or former employee benefits, or to reimburse employee benefits already paid by the Bank.

"Actuarial gains and losses" are defined as those arising from differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions. The Bank uses, on a plan-by-plan basis, the corridor method and recognizes in the consolidated income statement the amount resulting from dividing by five the net amount of the cumulative actuarial gains and/or losses not recognized at the beginning of each year which exceeds 10% of the present value of the obligations or 10% of the fair value of the plan assets at the beginning of the year, whichever amount is higher.

The "past service cost" -which arises from changes to current post-employment benefits or from the introduction of new benefits- is recognized on a straight-line basis in the consolidated income statement over the period from the time the new commitments arise to the date on which the employee has an irrevocable right to receive the new benefits.

Post-employment benefits are recognized in the consolidated income statement as follows:

- Current service cost -defined as the increase in the present value of the obligations resulting from employee service in the current period-, under "Personnel expenses".
- Interest cost -defined as the increase during the year in the present value of the obligations as a result of the passage of time-, under "Interest expense and similar charges". When obligations are presented on the liability side of the consolidated balance sheet, net of the plan assets, the cost of the liabilities recognized in the income statement relates exclusively to the obligations recognized as liabilities.
- The expected return on plan assets and the gains or losses on the value of the plan assets under "Interest and similar income".
- The actuarial gains and losses calculated using the corridor approach and the unrecognized past service cost, under "Provisions (net)" in the consolidated income statement.

v) Other long-term employee benefits

"Other long-term employee benefits", defined as obligations to early retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that all past service costs and actuarial gains and losses are recognized immediately (see Note 21).

w) Termination benefits

Termination benefits are recognized when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

x) Income taxes

Income tax is calculated at the rate of 15% plus a 10% surtax; social contribution tax is calculated at the rate of 15% (9% in 2007 and the period from January 1st to April 30, 2008) for financial institutions, and for non-financial companies the social contribution tax rate is 9%, after adjustments determined by tax legislation.

In accordance with the current regulation, the expected realization of the Bank's tax credits, as shown in Note 23, is based on the projection of future income and a technical study.

The expense for corporation income tax is recognized in the consolidated income statement, except when it results from a transaction recognized directly in equity, in which case the tax effect is also recognized in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognized in the consolidated income statement.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled.

"Tax assets" includes the amount of all tax assets, which are broken down into "current" -amounts of tax to be recovered within the next twelve months- and "deferred" -amounts of tax to be recovered in future years, including those arising from unused tax losses or tax credits.

"Tax liabilities" includes the amount of all tax liabilities (except provisions for taxes), which are broken down into "current" -the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months- and "deferred" -the amount of income tax payable in future years.

Deferred tax liabilities are recognized in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Bank is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognized for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilized, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit or accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognized if it is considered probable that the consolidated entities will have sufficient future taxable profits against which they can be utilized.

Income and expenses recognized directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities recognized are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed. PIS and COFINS taxes have been computed at a combined rate of 4.65% on certain gross revenues and expenses. Financial institutions may deduct financial expenses in determining the PIS/COFINS tax basis. PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses), therefore and accordingly to IAS 12 it is recorded as income taxes.

y) Consolidated cash flow statements

The following terms are used in the consolidated cash flow statements with the meanings specified:

- *Cash flows:* inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- *Operating activities:* the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- *Investing activities:* the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- *Financing activities:* activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

In preparing the consolidated cash flow statement, short-term highly liquid investments that are subject to an insignificant risk of changes in value were classified as "Cash and cash equivalents". Accordingly, the Bank classifies as cash and cash equivalents the balances recognized under "Cash and balances with the Brazilian Central Bank" in the consolidated balance sheet.

z) Consolidated statement of changes in equity

The consolidated statement of changes in equity presented in these consolidated financial statements shows the total changes in consolidated equity in the year. This information is in turn presented in two statements: the consolidated statement of recognized income and expense and the consolidated statement of changes in total equity. The main characteristics of the information contained in the two parts of the statement are explained below:

Consolidated statement of recognized income and expense

This part of the consolidated statement of changes in equity presents the income and expenses generated by the Bank as a result of its business activity in the year, and a distinction is made between the income and expenses recognized in the consolidated income statement for the year and the other income and expenses recognized directly in consolidated equity.

Accordingly, this statement presents:

a) Consolidated profit for the year.

b) The net amount of the income and expenses recognized temporarily in consolidated equity under "Valuation Adjustments".

c) The net amount of the income and expenses recognized definitively in consolidated equity.

d) The income tax incurred by the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented net.

e) Total consolidated recognized income and expense, calculated as the sum of the items in a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to minority interests.

The amount of the income and expenses relating to entities accounted for using the equity method recognized directly in equity is presented in this statement, irrespective of its nature, under "Entities accounted for using the equity method".

Statement of changes in total equity

This part of the statement of changes in equity presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and any changes are grouped together on the basis of their nature into the following items:

a) Adjustments due to changes in accounting policy and adjustments made to correct errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements due to changes in accounting policy or to the correction of errors.

b) Income and expense recognized in the year: includes, in aggregate form, the total of the aforementioned items recognized in the consolidated statement of recognized income and expense.

c) Other changes in equity: includes the remaining items recognized in equity, distribution of profit, transactions involving own equity instruments, transfers between equity items and any other increases or decreases in consolidated equity.

3. Contribution of Banco Real

On July 24, 2008, Banco Santander Spain acquired the majority control of ABN AMRO Real Group in Brazil. On August 29, 2008, as further discussed on Note 26, an Extraordinary Stockholders' Meeting approved an increase in Banco Santander's total capital, related to the merger of shares of Banco Real and AAB Dois Par held by Banco Santander Spain. Additionally, the Bank, in a share exchange transaction, exchanged all of the remaining shares of Banco Real and AAB Dois Par held by minority holders for shares of the Bank. As a result of the contribution: (a) Banco Real and AAB Dois Par were converted into wholly-owned subsidiaries of Banco Santander, according to article 252 of Law No. 6404/76; (b) Banco Santander's capital was increased based on the fair value of the shares of Banco Real and AAB Dois Par from R$9,131,448 thousand to R$47,152,201 thousand and an additional R$900.000 thousand of reserves, and (c) shares were issued by Banco Santander and delivered to the respective stockholders of Banco Real and AAB Dois Par.

This operation simplifies the equity structure of the companies of the Santander in Brazil and enabled the stockholders of Banco Real to become stockholders of a publicly traded company and have access to the current dividend policy of the Bank. This new structure also allows for a reduction of administrative costs, especially those related to legal and regulatory requirements.

The contribution of Real to the Bank was approved by the Brazilian Central Bank ("Bacen") in January, 2009.

The following purchase price allocation, accounted for in accordance with IFRS 3, "Business Combinations," reflects the purchase accounting adjustments determined on the date that Santander Spain acquired control of Banco Real since on that date Banco Real came under common control with the Bank. This allocation is being presented on a provisional basis, as further explained below:

As allowed by IFRS 3, if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the date of the business combination. Note 13 provides additional information regarding the goodwill generated from this transaction.

The incorporation of Banco Real and AAB Dois Par into the Bank resulted in an increase in the Bank's market share and distribution capacity and diversified the Bank's portfolio, resulting in a stronger capital and liquidity position.

If the acquisition had been completed on January 1, 2008, the Bank's net interest income for the year ended December 31, 2008 would have been R$19,292 million (unaudited) and profit would have been R$3,219 million (unaudited).

	Thousands of Reais		
	Book Value	Fair Value(3)	Adjustment
Net assets acquired			
Assets	**132,301,795**	**130,930,255**	**(1,371,540)**
Of which			
Cash and balances with central banks	*12,147,982*	*12,147,982*	—
Debt instruments	*21,758,968*	*21,728,385*	*(30,583)*
Loans and advances to customers	*69,669,710*	*68,039,392*	*(1,630,318)*
Tangible assets	*1,072,896*	*1,344,375*	*271,479*
Liabilities	**(119,436,124)**	**(120,701,971)**	**(1,265,847)**
Of which			
Deposits from credit institutions	*(20,946,768)*	*(20,932,165)*	*14,603*
Customer deposits	*(75,372,552)*	*(75,419,151)*	*(46,599)*
Subordinated liabilities	*(3,440,670)*	*(3,491,143)*	*(50,473)*
Other financial liabilities	*(5,974,858)*	*(5,852,833)*	*122,025*
Provisions	*(3,536,049)*	*(4,843,939)*	*(1,307,890)*
Net assets acquired	**12,865,671**	**10,228,284**	**(2,637,387)**
Intangible assets(1)		1,229,716	
Fair value of the assets		**11,458,000**	
Total consideration(2)		38,946,426	
Satisfied by			
Shares		*38,920,753*	
Cash		*25,673*	
Goodwill		**27,488,426**	

(1) Amount relates to customer list with an estimated useful life of 10 years

(2) Total consideration is based on amounts paid by the Santander Group for the acquisition of Banco Real

(3) The fair values of the assets and liabilities acquired were determined based on an evaluation performed on August 29, 2008 (the acquisition date) Such assets and liabilities were measured based on appraisals for the tangible assets, consideration of advice provided by legal counsel for contingent liabilities (in Provisions), and discounted cash flow analysis for all other assets and liabilities, taking in consideration the expected future economic benefits of the intangible assets

4. Cash and balances with the Brazilian Central Bank

	Thousands of Reais	
	2008	2007
Cash and cash equivalents of which	16,750,870	16,286,137
Cash	*3,218,899*	*1,455,533*
Money market investments(1)	*13,531,971*	*14,830,604*
Central bank compulsory deposits(2)	6,949,630	5,990,804
	23,700,500	**22,276,941**

(1) Federal funds sold and securities purchased under agreements to resell, which are short-term and present insignificant risk of changes in value

(2) Central bank compulsory deposits relate to a minimum balance financial institutions are required to maintain with the Brazilian Central Bank based on a percentage of deposits received from third parties

5. Loans and advances to credit institutions

The breakdown, by classification, type and currency, of the balances of "Loans and advances to credit institutions" in the consolidated balance sheets is as follows:

	Thousands of Reais	
	2008	2007
Classification:		
Other financial assets at fair value through profit or loss	4,046,898	1,452,467
Loans and receivables	29,691,635	5,831,178
	33,738,533	**7,283,645**
Type:		
Time deposits	10,702,723	1,860,654
Reverse repurchase agreements	4,582,903	738,871
Other accounts(1)	18,452,907	4,684,120
	33,738,533	**7,283,645**
Currency:		
Brazilian Real	22,661,621	5,694,850
US dollar	10,764,513	1,558,667
Euro	228,710	1,858
Pound sterling	13,252	5,113
Other currencies	70,861	23,157
Impairment losses	(424)	—
	33,738,533	**7,283,645**

(1) includes, primarily, foreign currency investments and escrow deposits.

Note 41-d contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

6. Debt instruments

The breakdown, by classification, type and currency, of the balances of "Debt instruments" is as follows:

	Thousands of Reais	
	2008	2007
Classification:		
Financial assets held for trading	10,011,999	8,535,261
Other financial assets at fair value through profit or loss	93,274	195,339
Available-for-sale financial assets	29,491,191	6,684,760
	39,596,464	**15,415,360**
Type:		
Brazilian government securities	37,492,944	14,338,140
Other debt securities	2,132,409	1,091,602
Impairment losses	(28,889)	(14,382)
	39,596,464	**15,415,360**
Currency:		
Brazilian Real	38,965,760	15,319,552
US dollar	659,593	110,190
Impairment losses	(28,889)	(14,382)
	39,596,464	**15,415,360**

At December 31, 2008, debt securities totaling R$3,916,554 thousand had been assigned to repurchase agreements, R$17,970,817 thousand to compulsory deposits in Central Bank, R$7,953,041 thousand to guarantee BM&FBovespa derivative transactions and R$1,370,738 thousand to escrow deposits and other guarantee.

Note 41-d contains a detail of the residual maturity periods of available-for-sale financial assets and of loans and receivables and of the related average interest rates.

7. Other equity instruments

a) Breakdown

The breakdown, by classification and type, of the balances of "Other equity instruments" is as follows:

	Thousands of Reais	
	2008	2007
Classification:		
Financial assets held for trading	678,993	340,267
Available-for-sale financial assets	1,244,490	2,618,697
	1,923,483	**2,958,964**
Type:		
Shares of Brazilian companies	1,200,305	2,870,319
Shares of foreign companies	127,700	4,789
Investment fund units and shares	595,478	83,856
	1,923,483	**2,958,964**

b) Changes

The changes in the balance of "Other equity instruments — Available-for-sale financial assets" were as follows:

	Thousands of Reais	
	2008	2007
Balance at beginning of year	2,618,697	3,046,774
Changes in the scope of consolidation (Note 3)	79,770	—
Net additions/disposals	(284,934)	(384,695)
Of which		
Companhia Energética De Sao Paulo — CESP	*(373,670)*	*(156,503)*
Fundos De Investimento Em Direitos Creditórios — FIDC	*(85,246)*	*(202,403)*
Wtorre Empreendimentos Imobiliários S.A.	*299,091*	—
Valuation adjustments	(1,169,043)	(43,382)
Balance at end of year	**1,244,490**	**2,618,697**

8. Trading derivatives (assets and liabilities) and Short positions

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Bank is as follows (see Note 41-a):

	Thousands of Reais			
	2008		2007	
	Debit Balance	Credit Balance	Debit Balance	Credit Balance
Interest rate risk	5,145,948	8,197,517	2,706,053	2,497,246
Foreign currency risk	4,111,758	2,973,718	158,057	1,960,491
Price risk	36,449	26,368	552,800	105,773
Other risks	853	(335)	63	621
	9,295,008	**11,197,268**	**3,416,973**	**4,564,131**

b) Short positions

All of the banks short positions for 2008 and 2007 related to Equity instruments from borrowed securities.

9. Loans and advances to customers

a) Breakdown

The breakdown, by classification, of the balances of "Loans and advances to customers" in the consolidated balance sheets is as follows:

	Thousands of Reais	
	2008	2007
Other financial assets at fair value through profit or loss	1,434,789	—
Loans and receivables	133,033,471	49,203,082
Of which		
Loans and receivables at amortized cost	*141,214,627*	*51,452,514*
Impairment losses	*(8,181,156)*	*(2,249,432)*
Loans and advances to customers, net	**134,468,260**	**49,203,082**
Loans and advances to customers, gross	**142,649,416**	**51,452,514**

Note 41-d contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

There are no loans and advances to customers for material amounts without fixed maturity dates.

b) Detail

Following is a detail, by loan type and status, borrower sector and interest rate formula, of the loans and advances to customers, which reflect the Bank's exposure to credit risk in its core business, gross of impairment losses:

	Thousands of Reais	
	2008	2007
Loan type and status:		
Commercial credit	629,177	348,673
Secured loans	29,518,688	15,419,099
Reverse repurchase agreements	5,111	6,360,562
Other term loans	83,328,780	24,722,067
Finance leases	11,836,050	392,327
Others	9,601,146	2,116,999
Impaired assets	7,730,464	2,092,787
	142,649,416	**51,452,514**
Loan type of customer:		
Commercial, financial and industrial	76,406,755	32,879,191
Real estate-construction	2,469,227	301,163
Real estate-mortgage	4,472,602	1,692,174
Installment loans to individuals	46,856,869	16,177,780
Lease financing	12,443,963	402,206
	142,649,416	**51,452,514**
Borrower sector:		
Public sector — Brazil	159,891	45,630
Households	4,467,550	1,692,174
Private person	55,696,919	16,694,486
Manufacturing	32,980,048	10,949,547
Services	27,626,311	14,906,037
Other sectors	21,718,697	7,164,640
	142,649,416	**51,452,514**
Interest rate formula:		
Fixed interest rate	79,074,052	37,851,727
Floating rate	63,575,364	13,600,787
	142,649,416	**51,452,514**

c) Impairment losses

The changes in the allowances for the impairment losses on the balances of "Loans and receivables — Loans and advances to customers" were as follows:

	Thousands of Reais	
	2008	2007
Balance at beginning of year	2,249,432	2,170,380
Impairment losses charged to income for the year	4,533,301	2,473,689
Of which		
Commercial, financial and industrial	*1,451,583*	*260,532*
Real estate-mortgage	*25,939*	*6,175*
Installment loans to individuals	*2,951,494*	*2,179,544*
Lease finance	*104,285*	*27,438*
Inclusion of entities in the Bank in the year (Note 3)	4,717,191	—
Of which		
Commercial, financial and industrial	*1,987,596*	—
Real estate-mortgage	*48,301*	—
Installment loans to individuals	*2,609,890*	—
Lease finance	*71,404*	—
Write-off of impaired balances against recorded impairment allowance	(3,318,768)	(2,394,637)
Of which		
Commercial, financial and industrial	*(738,611)*	*(309,529)*
Real estate-mortgage	*(13,279)*	*(7,175)*
Installment loans to individuals	*(2,513,112)*	*(2,027,492)*
Lease finance	*(53,766)*	*(50,441)*
Balance at end of year	**8,181,156**	**2,249,432**

Previously written-off assets recovered in 2008 and 2007 amounted to R$430,656 thousand and R$293,846 thousand, respectively. Taking into account these amounts and those recognized in "Impairment losses charged to income for the year" in the foregoing table, impairment losses on "Loans and receivables" amounted to R$4,102,645 thousand in 2008 and R$2,179,843 thousand in 2007.

d) Impaired assets

The detail of the changes in the balance of the financial assets classified as "Loans and receivables — loans and advances to customers" and considered to be impaired due to credit risk is as follows:

	Thousands of Reais	
	2008	2007
Balance at beginning of year	2,092,787	2,009,508
Net additions	5,035,515	2,477,916
Written-off assets	(3,318,768)	(2,394,637)
Increase in scope of consolidation (Note 3)	3,920,930	—
Balance at end of year	**7,730,464**	**2,092,787**

This amount, after deducting the related allowances, represents the Bank's best estimate of the fair value of the impaired assets.

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at December 31, 2008, classified by age of the oldest past-due amount:

	Thousands of Reais						
	With no Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by					Total
		3 to 6 Months	6 to 12 Months	12 to 18 Months	18 to 24 Months	More than 24 Months	
Total December 31, 2008	2,214,111	2,259,350	3,048,197	182,799	8,515	17,492	7,730,464
Total December 31, 2007	615,509	675,782	705,215	65,077	14,615	16,589	2,092,787

10. Non-current assets held for sale

At December 31, 2008 and December 31, 2007, the total amount of non-current assets held for sale related to foreclosed assets.

Tangibles assets received in payment and in lieu of those that were disabled, whether intended for sale up to one year through the completion of auctions.

11. Investments in associates

a) *Breakdown*

The breakdown, by company, of the balance of "Investments in associates" (see Note 2-b) is as follows:

	Participation %		Thousands of Reais			
			Investments		Results of Investments	
	2008	2007	2008	2007	2008	2007
Norchem Holding e Negócios S.A.	21.75%	21.75%	21,186	19,287	1,899	2,950
Norchem Participações e Consultoria S.A.	50.00%	50.00%	27,621	24,575	3,046	3,916
Companhia de Crédito, Financiamento e Investimento Renault do Brasil	39.59%	—	82,087	—	2,639	—
Companhia de Arrendamento Mercantil Renault do Brasil	39.88%	—	179,072	—	4,548	—
Celta Holding S.A.	25.99%	—	61,468	—	30,676	—
Real Tókio Marine Vida e Previdência S.A.	49.99%	—	86,980	—	14,338	—
Diamond Finance Promotora de Vendas	25.50%	—	787	—	564	—
Fonet Brasil S.A.(3)	50.99%	—	7,644	—	(539)	—
Companhia Brasileira de Meios de Pagamentos — Visanet(2)	14.87%	—	104,409	—	50,726	—
Cibrasec — Companhia Brasileira de Securitização(2)	13.64%	—	9,933	10,339	(49)	(785)
Tecban — Tecnologia Bancária S.A.	20.68%	—	32,044	364	271	(197)
Companhia Brasileira de Soluções e Serviços — CBSS(2)	15.32%	—	20,364	—	3,892	—
Interchange Serviços S.A.(1)	—	—	—	—	319	—
Total			633,595	54,565	112,330	5,884

(1) Changes in the scope of consolidation (Note 3) and subsequently sold during 2008

(2) Although the participations were less than 20%, the bank presumed significant influence on such participations, which was evidenced due to the bank's representation on the board of directors of investees, participation in policy-making process, including participation in decisions about dividends and material transactions between the bank and the investees

(3) Although the Bank possesses a minimum of 50% on each of these companies, they are not consolidated, as the Bank does not have control of such entities, either through veto rights or other shareholders' agreement items

b) Changes

The changes in the balance of this item were as follows:

	Thousands of Reais	
	2008	2007
Balance at beginning of year	54,565	48,681
Changes in the scope of consolidation (Note 3)	517,143	—
Disposals and capital reductions	(3,098)	—
Effect of equity accounting	112,330	5,884
Dividends paid	(46,384)	—
Other	(961)	—
Balance at end of year	**633,595**	**54,565**

c) Impairment losses

No impairment was accounted with respect to investments in associates in 2008 or 2007.

d) Other disclosures

Following is a summary of the financial information on the associates (obtained from the information available at the reporting date). Note that none of the associates had a fiscal year different from the Bank.

	Thousands of Reais	
	2008	2007
Total assets	16,354,230	362,260
Total liabilities	14,099,847	226,244
Total revenues	5,883,440	25,169
Total profit	1,613,115	21,396

12. Tangible assets

Tangible assets of the Bank relate to property, plant and equipment for own use. The Bank does not have tangible assets held as investment property nor leased out under operating leases. The Bank is also not a part of any capital lease contracts as of and during fiscal years ended December 31, 2008 and 2007.

The detail, by class of asset, of the tangible assets in the consolidated balance sheets is as follows:

	Thousands of Reais			
	Cost	Accumulated Depreciation	Impairment Losses	Net Balance
Land and buildings	312,660	(178,720)	(92,427)	41,513
IT equipment and fixtures	881,677	(613,900)	—	267,777
Furniture and vehicles	1,345,194	(543,514)	—	801,680
Construction in progress and other items	—	—	—	—
Balances at December 31, 2007	**2,539,531**	**(1,336,134)**	**(92,427)**	**1,110,970**
Land and buildings	1,961,109	(184,664)	(90,619)	1,685,826
IT equipment and fixtures	1,129,380	(624,970)	—	504,410
Furniture and vehicles	2,275,198	(662,038)	—	1,613,160
Construction in progress and other items	25,678	—	—	25,678
Balances at December 31, 2008	**5,391,365**	**(1,471,672)**	**(90,619)**	**3,829,074**

Changes

The changes in "Tangible assets" in the consolidated balance sheets were as follows:

	Thousands of Reais	
	2008	2007
Cost:		
Balances at beginning of the year	2,539,531	2,285,502
Additions/Reductions (net) due to change in the scope of consolidation (note 3)	1,344,375	—
Additions/Disposals (net)	1,509,306	267,816
Transfers and other changes	(1,918)	(13,746)
Exchange differences (net)	71	(41)
Balances at end of the year	**5,391,365**	**2,539,531**
Accumulated depreciation:		
Balances at beginning of the year	(1,336,134)	(1,202,870)
Disposals	149,204	95,912
Transfers and other changes	17,041	8,495
Charge for the year	(301,731)	(237,695)
Exchange differences and other items	(52)	24
Balances at end of the year	**(1,471,672)**	**(1,336,134)**
Impairment losses:		
Balances at beginning of the year	(92,427)	(23,735)
Impairment charge for the year	(28,129)	(70,876)
Transfers and other changes	29,937	2,184
Balances at end of the year	**(90,619)**	**(92,427)**
Tangible assets, net:	**3,829,074**	**1,110,970**

The depreciation expenses has been included in the line item "Depreciation and Amortisation" in the income statement.

13. Intangible assets — Goodwill

All of the Bank's goodwill relates to the contribution of Banco Real and AAB Dois Par to the Bank, as discussed in Note 3. The allocation of such goodwill is expected to be completed by the end of the first annual period beginning after the date that the Bank acquired control of these entities.

Goodwill is tested for impairment annually. For the current year, due to the recent incorporation of the before mentioned subsidiaries into the group and the results of the related market value calculation and purchase price allocation valuation recently performed, the Bank did not detect, and therefore, did not recognized any impairment losses.

14. Intangible assets — Other intangible assets

The breakdown of the balance of "Other intangible assets" is as follows:

	Estimated Useful Life	Thousands of Reais	
		2008	2007
With finite useful life:			
IT developments	3 years	1,122,446	1,074,710
Customer relationship	(1)	3,701,604	1,670,125
Other assets	up to 5 years	11,594	9,856
Accumulated amortization		(1,177,222)	(765,574)
Impairment losses		(151,561)	(189,935)
		3,506,861	**1,799,182**

(1) Includes Banco Real retail, middle market clients and core deposits customer relationship and exclusivity contracts for provision of banking services (accrued payments related to the commercial partnership contracts with the private and public sectors to secure exclusivity for banking services of payroll credit processing and payroll loans, maintenance of collection portfolio, supplier payment services and other banking services) Banco Real's customer relationship is amortized in 10 years and exclusivity contracts for provision of banking services are amortized over the term of the respective agreements.

The changes in "Other intangible assets" were as follows:

	Thousands of Reais	
	2008	2007
Balance at beginning of year	1,799,182	1,136,083
Change in the scope of consolidation (Note 3)	1,610,007	—
Additions/Disposals (net)	688,357	1,243,172
Amortization	(544,274)	(342,051)
Impairment losses	(52,002)	(227,533)
Exchange differences and other changes (net)	5,591	(10,489)
Balance at end of year	**3,506,861**	**1,799,182**

The amortization expenses has been included in the line item "Depreciation and Amortization" in the income statement.

15. Other assets

The breakdown of the balance of "Other assets" is as follows:

	Thousands of Reais	
	2008	2007
Transactions in transit	3,873	987
Prepayments and accrued income	1,186,188	164,955
Other receivables	1,680,543	378,406
	2,870,604	**544,348**

16. Deposits from the Brazilian Central Bank and Deposits from credit institutions

The breakdown, by classification, counterparty, type and currency, of the balances of these items is as follows:

	Thousands of Reais	
	2008	2007
Classification:		
Other financial liabilities at fair value through profit or loss	307,376	627,105
Financial liabilities at amortized cost	26,510,219	18,217,012
Of which		
Deposits from the Brazilian Central Bank	*184,583*	—
Deposits from credit institutions	*26,325,636*	*18,217,012*
	26,817,595	**18,844,117**
Type:		
Demand deposits	65,585	60,983
Time deposits	26,720,554	11,949,139
Repurchase agreements	31,456	6,833,995
	26,817,595	**18,844,117**
Currency:		
Reais	9,711,892	10,765,039
Euro	979,026	186,937
US dollar	12,957,208	5,335,890
Other currencies	3,169,469	2,556,251
	26,817,595	**18,844,117**

Note 41-d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

17. Customer deposits

The breakdown, by classification, geographical area and type, of the balance of "Customer deposits" is as follows:

	Thousands of Reais	
	2008	2007
Classification:		
Other financial liabilities at fair value through profit or loss	—	63,180
Financial liabilities at amortized cost	155,494,839	55,147,278
	155,494,839	**55,210,458**
Type:		
Demand deposits		
Current accounts	15,297,660	6,587,725
Savings accounts	20,642,679	6,288,137
Other demand deposits	—	25,736
Time deposits		
Fixed-term deposits	52,464,992	1,364,674
Discount deposits	36,415,030	24,663,342
Repurchase agreements	30,674,478	16,280,844
	155,494,839	**55,210,458**

Note 41-d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

18. Marketable debt securities

The breakdown, by classification and type, of the balance of "Marketable debt securities" is as follows:

	Thousands of Reais	
	2008	2007
Classification:		
Financial liabilities at amortized cost	12,085,655	2,805,417
	12,085,655	**2,805,417**
Type:		
Bonds outstanding	5,342,334	2,132,919
Notes and other securities	6,743,321	672,498
Total	**12,085,655**	**2,805,417**
Of which		
Securitization notes (MT100)(1)	*1,816,289*	*644,160*
Agribusiness credit notes — LCA	*2,016,367*	*244,855*
Real estate credit notes — LCI	*4,496,764*	*427,643*

(1) It includes the series 2004-1 in the amount of US$277 million (2007- US$360 million), with charges equivalent to 55% p a, payable semiannually until September 2011, the series 2008-1 in the amount of US$190 million, with charges equivalent to 62% p a , payable semiannually, with the principal payable in 10 installments between September 2010 to September 2015 and the series 2008-2 in the amount of US$300 million, with charges equivalent to Libor (6 months) + 0 80 p a , payable semiannually, with the principal payable in 10 installments between March 2010 to September 2014 related to Payable for sale of right to receipt of future flow of payment orders receivable from foreign correspondent banks

At December 31, 2008 and 2007, none of these issues was convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares.

Note 41-d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates in each year.

The breakdown, by currency of issue, of the balance of this account is as follows:

Currency of Issue	Thousands of Reais 2008	Thousands of Reais 2007	Average Interest Rate (%) December 31, 2008
Reais	9,630,331	1,967,146	10.19%
US dollar	2,455,324	838,271	4.23%
Balance at end of year	**12,085,655**	**2,805,417**	**8.98%**

The changes in “Marketable debt securities” were as follows:

	Thousands of Reais 2008	Thousands of Reais 2007
Balance at beginning of year	2,805,417	2,297,987
Acquired companies	4,077,492	—
Issues	12,148,373	2,370,030
Foreign exchange	356,261	(204,734)
Redemption	(8,378,657)	(1,918,130)
Interest	548,834	276,493
Other	527,935	(16,229)
Balance at end of year	**12,085,655**	**2,805,417**

19. Subordinated liabilities

The detail of the balance of "Subordinated liabilities" is as follows:

	Issuance	Maturity	Amount	Interest Rate	Thousands of Reais 2008 Total	Thousands of Reais 2007 Total
Perpetual Bonds(1)	September-05	Indefinite	US$ 500 million	8.70%	1,163,487	878,389
Floating Rate Notes	November-99	November-09	US$ 170 million	Libor + 4.50%	94,704	—
Floating Rate Notes	November-99	November-09	US$ 30 million	Libor + 4.50%	16,687	—
Subordinated Certificates of Deposit(2)	June-06	July-16	R$1,500 million	105.00% CDI	2,050,292	1,813,986
Subordinated Certificates of Deposit(2)	April-08	April-13	R$ 555 million	100.00% CDI + 1.00%	612,183	—
Subordinated Certificates of Deposit(2)	July-07	July-14	R$ 885 million	104.50% CDI	1,046,778	—
Subordinated Certificates of Deposit(2)	April-08	April-13	R$ 600 million	100.00% CDI + 1.25%	659,220	—
Subordinated Certificates of Deposit(2)	November-08	November-14	R$ 100 million	120.50% CDI	102,184	—
Subordinated Certificates of Deposit(2)	October-06	September-16	R$ 850 million	104.50% CDI	1,111,313	983,802
Subordinated Certificates of Deposit(2)	July-06 to October-06	July-16	R$ 447 million	104.50% CDI	603,266	534,047
Subordinated Certificates of Deposit(2)	January-07	January-13	R$ 300 million	104.00% CDI	378,974	—
Subordinated Certificates of Deposit(2)	August-07	August-13	R$ 300 million	100.00% CDI + 0.43%	353,546	—
Subordinated Certificates of Deposit(2)	January-07	January-14	R$ 250 million	104.50% CDI	316,086	—
Subordinated Certificates of Deposit(2)	May-08 to June-08	May-13 to May-18	R$ 283 million	CDI(3)	305,087	—
Subordinated Certificates of Deposit(2)	May-08 to June-08	May-13 to May-18	R$ 268 million	IPCA(4)	288,447	—
Subordinated Certificates of Deposit(2)	February-08	February-13	R$ 85 million	IPCA + 7.88%	95,175	—
Total					**9,197,429**	**4,210,224**

(1) Perpetual bonds issued by the Grand Cayman branch with quarterly interest payments These bonds do not have a maturity date or mandatory redemption, although they may, at the discretion of the Bank and with prior authorization by the Brazilian Central Bank, be redeemed in full in December 2010 or on any subsequent interest payment date

(2) Subordinated certificates of deposits issued by the Bank with yield paid at the end of the term together with the principal

(3) Indexed to 109% and 112% of the CDI or CDI plus interest of 116% p a to 1 53% p a

(4) Indexed to the IPCA (extended consumer price index) plus interest of 8 28% p a to 8 65% p a

The detail, by currency of issue, of the balance of "Subordinated liabilities" is as follows:

	Thousands of Reais		December 31, 2008
Currency of Issue	2008	2007	Average Interest Rate (%)
Reais	7,922,551	3,331,835	14.90%
US dollar	1,274,878	878,389	8.64%
Balance at end of year	**9,197,429**	**4,210,224**	**13.77%**

Note 41-d contains a detail of the residual maturity periods of subordinated liabilities at each year-end and of the related average interest rates in each year.

20. Other financial liabilities

The breakdown of the balances of these items is as follows:

	Thousands of Reais	
	2008	2007
Credit card obligations	4,898,336	1,565,454
Unsettled financial transactions	3,107,531	755,746
Dividends payable	1,449,922	1,470,150
Tax collection accounts — Tax payables	838,893	221,331
Other financial liabilities	390,490	388,301
	10,685,172	**4,400,982**

Note 41-d contains a detail of the residual maturity periods of other financial assets and liabilities at each year-end.

21. Provisions

a) Breakdown

The breakdown of the balance of "Provisions" is as follows:

	Thousands of Reais	
	2008	2007
Provisions for pensions and similar obligations	1,078,916	777,639
Provisions for commitments and other provisions(1)	7,836,329	4,038,682
Provisions	**8,915,245**	**4,816,321**

(1) Includes mainly provisions for taxes and others legal, civil and labor contingencies

b) Changes

The changes in "Provisions" were as follows:

	Thousands of Reais					
	2008			2007		
	Pensions	Provisions for Commitments and Other Provisions(1)	Total	Pensions	Provisions for Commitments and Other Provisions(1)	Total
Balances at beginning of year	777,639	4,038,682	4,816,321	4,393,317	3,826,371	8,219,688
Net inclusion of entities in the Bank	273,423	4,570,516	4,843,939	—	—	—
Additions charged to income:						
Interest expense and similar charges (Note 30)	91,437	—	91,437	112,619	—	112,619
Personnel Expenses (Note 37)	45,060	—	45,060	38,477	—	38,477
Additions to provisions	18,359	1,211,958	1,230,317	16,731	1,179,681	1,196,412
Payments to pensioners and early retirees with a charge to internal provisions	(33,054)	—	(33,054)	(28,787)	—	(28,787)
Payments to external funds(2)	(93,948)	—	(93,948)	(3,754,718)	—	(3,754,718)
Amount used	—	(2,142,761)	(2,142,761)	—	(861,323)	(861,323)
Transfers, exchange differences and other changes	—	157,934	157,934	—	(106,047)	(106,047)
Balances at end of year	**1,078,916**	**7,836,329**	**8,915,245**	**777,639**	**4,038,682**	**4,816,321**

(1) Includes, primarily, legal obligations, tax and social security, labor and civil contingencies

(2) According to the Employee Basic Rules and Union Agreement (ACT 2004/2006), the Bank had labor obligations related to the retirement and pension benefits applicable to the employees hired until May 22, 1975 On January 12, 2007, the payment of these benefits was assumed by Banesprev (independent private pension entity) under a new pension fund plan (Plano V), specially created for this purpose, according to regulator approval (Portaria SPC 879, 2007), as a consequence, the Bank transfer to Banesprev assets equivalent to R$3,598,816 thousand (cash R$120,000 thousand and securities R$3,478,816 thousand) and assumed an obligation with Banesprev of R$336,661 thousand with have been paid in 250 months

c) Provisions for pensions and similar obligations

i. Supplemental Pension Plan

The Bank and its subsidiaries sponsor private pension entities and plans for the purpose of providing retirement and pension benefits that supplement those provided by government, as defined in the basic regulations of each plan.

- ***Banesprev — Fundo Banespa de Seguridade Social (Banesprev)***
- *Plan I:* Defined benefit plan fully defrayed by the Bank, covers employees hired on or after May 22, 1975, and those hired by May 22, 1975 who are also entitled to death benefits.
- *Plan II:* Defined benefit plan effective July 27, 1994, when the new text of the Statutes and Basic Regulations of Plan II came into effect, Plan I participants who opted for the new plan began contributing 44.94% of the funding rate established by the actuary for each period.
- *Plan V: Defined benefit plan* fully defrayed by the Bank, covers employees hired on or after May 22, 1975.
- *Supplemental Pension Plan:* Defined benefit plan created in view of the privatization of Banespa and is managed by Banesprev. This Plan, effective January 1, 2000, is provided only to employees hired until May 22, 1975.
- *Plan III:* Defined contribution covering employees hired on or after May 22, 1975, previously enrolled in Plans I and II. In this plan, contributions are made by both the sponsor and participants.
- *Plan IV: Denined contibution* covering employees hired on or after November 27, 2000, in which the sponsor contributes only to risk benefits and administrative costs.

- ***Sanprev — Santander Associação de Previdência (Sanprev)***
- *Plan I:* Defined benefit plan established on September 27, 1979 as a defined benefit plan for employees of plan sponsors, and has been in the process of discontinuance since July 1, 1996.
- *Plan II:* provides a risk coverage, temporary supplemental pension, disability retirement, lump-sum death benefit, supplemental sick pay and birth grant, for employees of plan sponsors and is funded exclusively by the sponsors through monthly contributions corresponding to 1.16% of the total payroll, structured as a defined benefit plan. Monthly contributions are apportioned as follows: 0.28% for risk benefits and 0.88% for the administrative program.
- *Plan III:* provides period-certain annuity and monthly life annuity for employees of contributing sponsors and is structured as a defined contribution plan, whereby contributions are freely made by participants starting at 2% of the contribution salary.

- ***Holandaprevi:***

Defined benefit plan, started in 1999, funded mainly by Banco Real and managed by Holandaprevi Sociedade de Previdência Privada.

- ***Previban:***

Defined benefit plan, managed by Previban — Previdência Privada Paraiban, sponsored by Banco Real, whose participants are the former employees of Banco da Paraíba S.A. — Paraiban. This plan is closed to new entrants and is in process of withdrawal of sponsoring.

- ***Bandeprev:***

Defined benefit plan, sponsored by Banco de Pernambuco S.A. — BANDEPE and Banco Real, managed by Bandeprev — Bandepe Previdência Social. The plans are divided into basic plan and special plan, with different eligibility requirements, contributions and benefits by subgroups of participants. Both plans are closed to new entrants. As a result of the spin-off of Banco de Pernambuco S.A. — Bandepe's operations and subsequent merger into Banco Real, the employees of Bandepe were transferred to Banco Real on May 1, 2006.

- ***Fasass:***

Three plans managed by Fundação América do Sul de Assistência e Seguridade Social, sponsored by Banco Comercial e de Investimento Sudameris S.A., with the following features:

- Defined benefit supplementary pension plan, in the process of discontinuance since July 1, 1998;
- Benefit plan II, a defined benefit plan created on July 1, 1998, including death and disability coverage, closed to new entrants since July 8, 1999;
- Benefit plan II, a defined benefit plan created on July 1, 1998, closed to new entrants since July 8, 1999. The plan is in process of withdrawal of sponsoring.

- ***Other:***

Banco Santander S.A. is the sponsor of pension plans for associated employees, structured as defined benefit plans.

ii. Actuarial Techniques

The amount of the defined benefit obligations was determined by independent actuaries using the following actuarial techniques:

- ***Valuation method:***

Projected unit credit method, which sees each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

- ***Nominal discount rate for actuarial obligation:***

Banesprev — Plan V and Other Plans — 11.07% (2007, 11.06%)

Banesprev — Supplementary pension plan — 14.9% (2007, 14.7%).

Banesprev — Other plans — 12.1% (2007, 14.6%. except for Plan IV 13.6%).

Sanprev plans — 12.5% (2007, 10.4%).

Bandeprev, Fasass, Holandaprevi and Previban — 10.3%.

- ***Expected rate of return on plan assets:***

Banesprev — Plan V and Other Plans — 16.5% (2007, 16.7%).

Banesprev — Supplementary pension plan — 14.9% (2007, 14.7%).

Banesprev — Other Plans — 12.9%. except for Plan IV — 12.5% (2007, 14.6%. except for Plano IV — 13.6%)

Sanprev Plans — 10.6% (2007, 10.4%).

Bandeprev — 12.1%. Fasass — 13.8% and Holandaprevi and Previban — 11.8%.

- ***Estimated long-term inflation rate and estimated salary and benefit increase rate:***

Banesprev and Sanprev — All plans — 4.0% (2007, 4.2%).

Bandeprev, Fasass, Holandaprevi and Previban — 4.0%.

Bandeprev and Holandaprevi — salary growth of 1.0% and Fasass and Previban - null growth as they do not have active participants

- ***General mortality biometric table:***

Banesprev, Sanprev, other plans - AT-2000.

Holandaprevi and Bandeprev — AT-2000 segregated by gender.

Previban and Fasass — UP-94 segregated by gender.

- ***Disability biometric table and disability mortality table:***

Banesprev and Sanprev — Mercer Disability table. Not applicable to the other plans.

Bandeprev, Fasass, Holandaprevi and Previban — Mercer Disability and Disability mortality table: IAPB57.

- ***Expected Turnover table:***

Banesprev — Plan V (0.1/Length of service +1) up to 50 years of age.

Banesprev — Supplementary pension plan and other plans — 0%.

Banesprev - Other plans — 2.0% and Plans Sanprev — null.

Holandaprevi segregated by age according to the rates below, by minimum wage (MW) cohorts: up to 10 MWs — 10% to 7%; from 10 MWs up to 20 MWs — 9% to 6%; and above 20 MWs — 8% to 5%.

Bandeprev follows the cohorts: up to 10 MWs =0.45/(length of service+1); from 10 MWs to 20 MWs=0.30/(length of service +1); and above 20 MWs=0.15/(length of service +1).

Fasass and Previban is null, as they do not have active participants.

- ***Probability of retirement: 100% upon first eligibility.***

iii. Health and Dental Care Plan

- ***Cabesp — Caixa Beneficente dos Funcionários do Banco do Estado de São Paulo S.A***

The Bank contributes to Cabesp, an entity that covers health and dental care expenses of employees hired until Banespa privatization in 2000.

- ***Holandaprevi's retirees***

Holandaprevi's retirees' health care plan is a lifetime benefit and receives a subsidy of 30% of the basic plan cost from the sponsor, payable only to beneficiaries entitled to the benefits through December 31, 2002. Costing is made directly by the sponsor.

- ***Former employees of Banco Real S A. (retiree by circulares)***

The health care plan of the former employees of Banco Real is a lifetime benefit and receives a subsidy of 90% of the basic plan cost from the sponsor.

- ***Bandeprev's retirees***

The health care plan of Bandeprev's pension plan beneficiaries is a lifetime benefit, for which the Bank is responsible for defraying 50% of the benefits of employees retired before the date the sponsor Banco de Pernambuco S.A. — Bandepe was privatized and 30% of the benefits of employees retired after privatization.

- ***Officer with lifetime benefits (lifetime officers)***

Lifetime health care benefit granted to former officers of Banco Sudameris Brasil S.A. who held an officer position at Banco Sudameris Brasil S.A. for a period of ten years or more (closed group). With the merger of Banco Sudameris Brasil S.A , Banco Real became responsible for ensuring the benefit.

- ***Plasas — Fasass' Supplementary Health Plan (Plasas)***

Voluntary health plan, created on July 1, 1989, supplementary to the health care plan and only for cases of hospitalization.

It includes a reserve made up by participants' and Fasass' contributions, which are suspended since August 1999. The Plan is closed to new entrants since July 1999.

- ***Life insurance for Banco Real's retirees (Life Insurance)***

Life insurance policy for former employees of Banco Real. Upon the death of the beneficiary, his/her dependent receives a lump-sum death benefit and, upon the death of the beneficiary's spouse, the beneficiary receives 50% of such amount. Banco Real subsidizes 45% of the total premium (closed group).

- ***Free clinic***

The health care plan "free clinic" is a lifetime plan offered to the retirees who have contributed to Fundação Sudameris for at least 25 years and is funded by the users. The plan is offered only for hospitalization in wards.

During 2008, the Bank recognized an expense of R$33,166 thousand (2007, R$3,919 thousand) related to contributions to pension funds (Note 37).

The funding status of the defined benefit obligations in 2008 and 2007 is as follows:

	Thousands of Reais			
	Post-Employment Plans		Other Similar Obligations	
	2008	2007	2008	2007
Present value of the obligations:				
To current employees	954,321	798,056	26,806	—
Vested obligations to retired employees	11,676,568	9,205,628	2,684,670	2,786,207
To early retirees	—	—	44	181
	12,630,889	**10,003,684**	**2,711,520**	**2,786,388**
Less:				
Fair value of plan assets	12,390,745	10,117,296	2,897,569	2,782,114
Unrecognized actuarial (gains)/losses	(180,135)	(576,868)	(223,100)	148,346
Unrecognized assets	(378,950)	(314,201)	(242,636)	(144,254)
Unrecognized past service cost	—	—	—	—
Provisions — Provisions for pensions	**799,229**	**777,457**	**279,687**	**182**

In January 2007 Banco do Estado de Sao Paulo, S.A.- Banespa (which merged with Banco Santander Banespa, S.A. on August 31, 2006) externalized a portion of the pension obligations to employees for which it still recognized an internal provision and for this purpose arranged an external plan or fund managed by Banesprev. As a result of this externalization, the related assets and liabilities were transferred to Banesprev, and "Provisions — Provisions for Pensions and Similar Obligations" at December 31, 2007 included the present value of the aforementioned obligations, net of the fair value of the related plan assets and the net unrecognized cumulative actuarial gains and/or losses.

The amounts recognized in the consolidated income statement in relation to the aforementioned defined benefit obligations are as follows:

	Thousands of Reais			
	Post-Employment Plans		Other Similar Obligations	
	2008	2007	2008	2007
Current service cost	21,284	24,745	23,776	13,732
Interest cost	1,362,586	1,195,156	311,758	269,275
Expected return on plan assets	(1,278,663)	(1,082,537)	(304,244)	(269,275)
Extraordinary charges:				
Actuarial (gains)/losses recognized in the year	16,726	8,305	—	—
Past service cost	—	—	—	—
Early retirement cost	—	—	1,633	8,426
Total	**121,933**	**145,669**	**32,923**	**22,158**

The changes in the present value of the accrued defined benefit obligations were as follows:

	Thousands of Reais			
	Post-Employment Plans		Other Similar Obligations	
	2008	2007	2008	2007
Present value of the obligations at beginning of year	10,003,684	8,732,563	2,786,388	2,047,784
Net inclusion of entities in the Bank	1,372,869	—	291,755	—
Current service cost	21,284	24,745	23,776	13,732
Interest cost	1,362,586	1,195,156	311,758	269,275
Early retirement cost	—	—	1,633	8,426
Benefits paid	(922,771)	(843,702)	(157,266)	(157,685)
Past service cost	—	—	—	—
Actuarial (gains)/losses	931,691	989,648	(539,867)	651,450
Other	(138,454)	(94,726)	(6,657)	(46,594)
Present value of the obligations at end of year	**12,630,889**	**10,003,684**	**2,711,520**	**2,786,388**

The net inclusion of entities in the Bank mainly relates to Banco Real.

The changes in the fair value of the plan assets were as follows:

	Thousands of Reais			
	Post-Employment Plans		Other Similar Obligations	
	2008	2007	2008	2007
Fair value of plan assets at beginning of year	10,117,296	3,745,220	2,782,114	2,430,500
Net inclusion of entities in the Bank	1,574,595	—	93,401	—
Expected return on plan assets	1,278,663	1,082,537	304,244	269,275
Actuarial gains/(losses)	230,194	1,373,486	(169,057)	169,143
Contributions	83,055	4,730,968	41,487	42,860
Of which				
By the Bank(1)	*67,513*	*4,712,879*	*36,021*	*36,184*
By plan participants	*15,542*	*18,089*	*5,466*	*6,676*
Benefits paid	(893,058)	(814,915)	(153,225)	(129,664)
Exchange differences and other items	—	—	(1,395)	—
Fair value of plan assets at end of year	**12,390,745**	**10,117,296**	**2,897,569**	**2,782,114**

(1) 2007, includes the initial transfer and the monthly amounts paid to Banesprev for Plan V

The net inclusion of entities in the Bank relates mainly to Banco Real.

In 2009 the Bank expects to make contributions to fund these obligations for amounts similar to those made in 2008.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2008	2007
Equity instruments	5.47%	8.66%
Debt instruments	92.85%	89.33%
Properties	0.10%	0.01%
Other	1.58%	2.00%

The expected return on plan assets was determined on the basis of the market expectations for returns over the duration of the related obligations.

The following table shows the estimated benefits payable at December 31, 2008 for the next ten years:

	Thousands of Reais
2009	1,134,451
2010	1,181,847
2011	1,231,979
2012	1,285,181
2013	1,339,371
2014 to 2018	7,488,601
	13,661,430

d) Provisions for commitments and other provisions

Banco Santander S.A. and its subsidiaries are parties to judicial and administrative proceedings involving tax, civil and labor matters arising in the normal course of their business.

Provisions were recognized based on the nature, complexity and history of the lawsuits, and the opinion of the in-house and outside legal counsel. Santander's policy is to accrue the full amount of lawsuits whose likelihood of unfavorable outcome is probable.

Legal obligations — tax and social security were fully recognized in the financial statements.

Management understands that the recognized reserves are sufficient to cover probable losses on the lawsuits.

i. Legal obligations and tax and social security contingencies

Refer to judicial and administrative proceedings involving tax and social security obligations based on the legal counsel's opinion as probable losses, as described below:

- *PIS and Cofins* — R$2,210,489 (2007- R$210,883): lawsuit filed by several companies of the conglomerate against the provisions of article 3, paragraph 1 of Law No. 9718/98, pursuant to which PIS and COFINS must be levied on all revenues of legal entities. Prior to said provisions, already overruled by several recent decisions by the Federal Supreme Court, PIS and Cofins were levied only on revenues from services and sale of goods.
- *Deductibility of CSLL from IRPJ (corporate income tax)* — R$549,739 (2007- R$392,786): seeks deduction of CSLL expense from income tax calculation.

- *CSLL — equal tax treatment* — R$502,948 — lawsuit filed by several companies of the group challenging the application of an increased CSLL rate (18%) for financial institutions as compared to the rate for non-financial companies (8%).

- *Increase in CSLL tax rate* — R$136,853 — September 2008, the Bank filed for an injunction to avoid the increase in the CSLL tax rate established by Executive Act 413/2008, converted into Law 11727/2008. Financial institutions were subject to a CSLL tax rate of 9%, however the new legislation established a 15% tax rate.

- *IRPJ — Recognition in the same period* — R$381,044 — lawsuit claiming that, for IRPJ calculation purposes, depreciation expenses be recognized in the same period as revenues from lease payments are recognized.

- *ISS (service tax)* — Financial Institutions — refers to administrative and judicial proceedings with several municipalities that require the payment of ISS on several revenues from operations that usually do not qualify as service provision. The updated amount involved is R$279,554 (2007 — R$87,994).

- *INSS (social security contribution)* — refers to administrative and judicial proceedings seeking collection of social security contribution and salary premium for education on amounts that normally are not of a salary nature. The updated amount involved is R$159,752 (2007 — R$120,498).

- *Allowance for doubtful accounts* — R$205,714 — collection of IRPJ and CSLL levied on the allowance for doubtful accounts, arising from the deduction, considered undue by tax authorities, in calendar 1995, alleging that the tax criteria in effect at the time were not complied with.

- *Allowance for loan losses* — R$90,466 — Consolidated: intended to annul the assessment notices issued by the Federal Revenue Service alleging that the companies incorrectly deducted from the IRPJ and CSLL bases losses on lending operations, as these deductions did not meet the terms and conditions set forth by prevailing legislation.

ii. Labor contingencies

These are lawsuits brought by labor unions and former employees claiming labor rights they understand are due, especially payment for overtime and other labor rights, including retirement benefit lawsuits.

For labor claims considered to be similar and usual, the reserve is recorded based on the history of payments made. Other labor claims are controlled individually and the reserves are recognized based on previous court decisions and the stage of each lawsuit.

iii. Civil contingencies

Refer to lawsuits for indemnity and review of lending agreements.

Lawsuits for indemnity seek indemnity for property damage and/or pain and suffering, relating to the consumer relationship, principaly with undue protest, return of checks, inclusion of debtors' information into the credit restriction master file, elimination of inflation effects in escrow deposit accounts and other matters.

Lawsuits for review refer to challenges of lending agreement clauses by customers.

There are also lawsuits filed by minority stockholders of the former Banco Noroeste against corporate acts in 1998 and 1999. Although there are unfavorable decisions from the lower court, based on legal counsels' evaluation, management believes that the Bank has good chances to overturn such decisions through the appeals filed with the São Paulo State Court of Justice.

For civil lawsuits considered to be similar and usual, the reserve is recorded based on the history of payments made, based on the legal counsel's evaluation of success and classification. Other lawsuits are controlled individually and the reserves are recognized based on the status of each lawsuits, law and previous court decisions.

iv. Other lawsuits under the responsibility of former controlling stockholders

Refer to tax, labor and civil lawsuits in the amounts of R$459,291, R$137,861 and R$57,386 (2007 — R$609,613, R$177,791 and R$92,834), respectively, recorded under "Other payables — tax and social security" and "Other payables — other" which are the responsibility of the former controlling stockholders of the acquired entities. The lawsuits have guarantees under the agreements signed at the time of the acquisitions in the amount of R$654,538 (2007 — R$880,238), recorded under "Other receivables — other". These lawsuits have no effects on the balance sheet.

v. Contingent liabilities classified as possible loss risk

Refer to judicial and administrative proceedings involving tax, civil and labor matters assessed by the legal counsel as possible loss, which were not accounted for. The main lawsuits are:

- *CPMF (tax on banking transactions) on Customer Operations* — in May 2003, the Federal Revenue Service issued an Infraction Notice against Santander Distribuidora de Títulos e Valores Mobiliários Ltda. (Santander DTVM) and another Infraction Notice against the former Banco Santander Brasil S.A., both in the amount of R$290 million. The notices refer to the collection of a CPMF tax credit on transactions conducted by Santander DTVM in the management of its customers' funds and clearance services provided by the Bank to Santander DTVM, according to the agreement between these two companies, in 2000, 2001 and the first two months of 2002. Both companies consider that the tax treatment adopted was adequate since said transactions were subject to CPMF at zero rate. The Board of Tax Appeals judged the administrative proceedings, annulling the infraction notice of Santander DTVM and confirming the infraction notice of the Bank. In both cases, an administrative appeal can be filed with the Higher Board of Tax Appeals (CSRF). The updated amount of each proceeding is approximately R$530 million.

- *IRPJ and CSLL on Reimbursement arising from Contractual Guarantees* — in December 2007, the Federal Revenue Service issued an Infraction Notice in the amount of R$320 million against Banco Santander S.A. The notice refers to the collection of IRPJ and CSLL for tax year 2002 on amounts reimbursed by the former controlling stockholder of Banco Santander S.A. for payments made by the Bank that were the responsibility of the controlling stockholder. The Federal Revenue Service understood that the amount deposited in favor of Santander S.A. is not a reimbursement but a taxable income. The Bank has filed an administrative defense and the decision was unfavorable. The updated amount of each proceeding is approximately R$350 million.

- *Addition to the Price on the Purchase of Shares of Banco do Estado de São Paulo S.A.* — ordinary action claiming the inexistence of legal relationship before the National Treasury in relation to item 3.1 of the Banespa's Share Purchase and Sale Agreement. Such item provided for the payment of an addition to the minimum price should Banespa be released from the tax contingency recognized at the time of the privatization upon the setting of the minimum price. The updated amount involved is approximately R$299 million. After an unfavorable lower court decision, on April 23, 2008, the 1st Region Federal Court accepted the appeal filed by the Bank and declared undue the collection. The action is awaiting trial of the appeal brought by the government.

- *Deductibility of Expenses on Allowance for Doubtful Receivables* — Administrative collection by the Federal Revenue Service in view of the deduction from the IRPJ and CSLL basis of losses on lending operations performed in 1998 and 2000. The Bank is awaiting judgment and understands that the collection is undue since the expenses met the deductibility conditions of Law 9430/1996 as they referred to definitive losses. The updated amount involved is approximately R$211 million.

- *CSLL — Unconstitutionality* — Noncompliance with the amnesty established by Law 9779/1999 — claims that entities that joined the amnesty failed to comply with the requirements of such Law, alleging that such entities were not supported by an injunction for all periods paid (1989 to 1999). The judicial and administrative proceedings are awaiting judgment. The updated amount involved is approximately R$159 million.

- *CSLL — equal tax treatment* — Lawsuit regarding the difference in social contribution tax rate applied to financial institutions and equivalent entities in the first half of 1996, as such tax rate was higher than the rates applied to other legal entities, which is contrary to the precedence and non-retroactivity constitutional principle. There is a lawsuit awaiting judgment and other appeals pending decisions. The adjusted amount involved is approximately R$152 million.

- *CSLL — final and unappealable decision* — seeks ensuring the right not to recognize the tax credit formalized by the Federal Revenue Service, regarding alleged irregularities in the payment of CSLL, as the Entity obtained a final and unappealable decision canceling the payment of CSLL under Laws 7689/1988 and 7787/1989. The appeals filed with the Regional Federal Court are awaiting decision. The updated amount involved is approximately R$150 million.

- *Semiannual Bonus or Profit Sharing* — labor lawsuit relating to the payment of a semiannual bonus or, successively, profit sharing to retired employees from the former Banco do Estado de São Paulo S.A. — Banespa, hired by May 22, 1975. This lawsuit was filed by Banespa's Retirees Association and was judged by the Superior Labor Court and the Bank has filed an appeal. The involved amount is not disclosed due to the current stage of the lawsuit and the possibility of affecting its progress.

At the end of each of the last three years, the Bank had recorded provisions that reasonably cover any contingencies that might arise from the aforementioned tax and legal litigation.

22. Other liabilities

The breakdown of the balance of "Other Liabilities" is as follows:

	Thousands of Reais	
	2008	**2007**
Accrued expenses and deferred income	2,026,316	956,742
Transactions in transit	336,265	109,813
Other	1,164,381	387,433
	3,526,962	**1,453,988**

23. Tax matters

a) *Income and Social Contribution Taxes*

The total charge for the year can be reconciled to accounting profit as follows:

	Thousands of Reais	
	2008	2007
Income before taxes, net of profit sharing	2,548,833	2,687,141
Interest on capital(1)	(480,000)	(527,600)
Unrealized profits	(1,335)	—
Income before taxes	2,067,498	2,159,541
Total income and social contribution tax at the rates of 25% and 15%, respectively(*)	(826,999)	(734,244)
PIS and COFINS (net of income and social contribution taxes)(2)	(492,554)	(389,984)
Equity in subsidiaries	44,932	2,001
Reserve for maintenance of integrity of stockholders' equity(3)	375,542	303,178
Nondeductible expenses and provisions	(74,441)	63,150
Exchange variation — foreign branches(4)	681,453	(28,899)
Effect of income and social contribution taxes on prior year's temporary differences	125,311	26,664
Effects of change in tax rate and result in subsidiaries at the rate of 9%	(9,221)	—
Other adjustments	5,770	(26,008)
Income and social contribution taxes	**(170,207)**	**(784,142)**
Of which:		
Current tax	(1,173,722)	(749,295)
Deferred taxes	1,003,515	(34,847)
Taxes paid in the year	(918,677)	(392,791)

(*) 25% and 9% for 2007

(1) Amount distributed to shareholders as interest attributable to shareholders' equity. For accounting purposes, although the interest should be reflected in the statement of income for tax deduction, the charge is reversed before the calculation of the net income in the statutory financial statements and deducted from the shareholders' equity since is considered as dividend.

(2) PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses), therefore and accordingly to IAS 12 it is recorded as income taxes.

(3) Reserve for maintenance of integrity of stockholders' equity — corresponds to a special deduction that arose in the 2006 Corporate Reorganization and equalization reserve (see Notes 1 and 21).

(4) Relates to the net gain arising from the economic hedge of the Bank's position in Cayman, which is a non-autonomous subsidiary, offset by a loss recorded on "Gain/Losses on Financial Assets and Liabilites (Net)" See Note 34

b) Effective tax rate calculation

The effective tax rate is as follows:

	Thousands of Reais	
	2008	2007
Profit Before Taxes	2,548,833	2,687,141
Income tax	170,207	784,142
Effective tax rate(1)	6.68%	29.18%

(1) In 2008, the effective tax rate would have been 25,0%, excluding the tax effect of the exchange variation over foreign branches and the related net loss arising from the economic hedge, accounted in the Gains/losses on financial assets and liabilities (Note 34)

c) Tax recognized in equity

In addition to the income tax recognized in the consolidated income statement, the Bank recognized the following amounts in consolidated equity:

	Thousands of Reais	
	2008	2007
Tax credited to equity:	**463,203**	**821,554**
Measurement of available-for-sale fixed-income securities	463,203	821,554
Tax charged to equity:	**(165,996)**	**—**
Measurement of cash flow hedges	(165,996)	—
Total	**297,207**	**821,554**

d) Deferred taxes

The detail of the balances of "Tax assets — Deferred" and "Tax liabilities — Deferred" is as follows:

	Thousands of Reais	
	2008	2007
Tax assets	**11,769,157**	**4,073,205**
Of which		
Tax loss carryforwards	*1,377,470*	*446,337*
Temporary differences(1)	*10,391,687*	*3,626,868*
Tax liabilities	**3,130,894**	**1,452,640**
Of which		
Excess depreciation of leased assets	1,156,283	716,125
Adjustment to fair value of trading securities and derivatives	1,372,552	462,463

(1) Temporary differences relate mainly to impairment losses on loans and receivables and contingent liabilities

The changes in the balances of "Tax Assets — Deferred" and "Tax Liabilities — Deferred" in the last two years were as follows:

	Thousands of Reais				
	Balances at December 31, 2007	(Charge)/ Credit to Income	Charge/ Credit to Asset and Liability Revaluation Reserve	Acquisitions for the Year (Net)	Balances at December 31, 2008
Deferred tax assets	4,073,205	2,224,953	45,185	5,425,814	11,769,157
Deferred tax liabilities	1,452,640	1,221,438	(491,031)	947,847	3,130,894
Total	**2,620,565**	**1,003,515**	**536,216**	**4,477,967**	**8,638,263**

	Thousands of Reais				
	Balances at December 31, 2006	(Charge)/ Credit to Income	Charge/ Credit to Asset and Liability Revaluation Reserve	Acquisitions for the Year (Net)	Balances at December 31, 2007
Deferred tax assets	3,815,620	197,821	59,764	—	4,073,205
Deferred tax liabilities	1,185,191	232,668	34,781	—	1,452,640
Total	**2,630,429**	**(34,847)**	**24,983**	**—**	**2,620,565**

24. Minority interests

"Minority interests" include the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Bank, including the portion attributed to them of profit for the year.

a) Breakdown

The detail, by company, of the balance of "Equity — Minority interests" is as follows:

	Thousands of Reais	
	2008	2007
Agropecuária Tapirapé S.A.	60	57
Banco ABN AMRO Real S.A.	80	—
Banco Comercial e de Investimento Sudameris S.A.	3,977	—
Real Leasing S.A. Arrendamento Mercantil	819	—
Real CHP S.A.	334	—
Other companies	9	—
	5,279	**57**
Profit for the year attributed to minority interests	**231**	—
Of which		
Banco Comercial e de Investimento Sudameris S.A.	*206*	—
Real Leasing S.A. Arrendamento Mercantil	*19*	—
Other companies	*6*	—

b) Changes

The changes in the balance of "Minority interests" are summarized as follows:

	Thousands of Reais	
	2008	2007
Balance at beginning of year	57	57
(Net) inclusion of companies and changes in scope of consolidation	4,991	—
Profit for the year attributed to minority interests	231	—
Balance at end of year	**5,279**	**57**

25. Valuation adjustments

The balances of "Valuation adjustments" include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognized temporarily in equity through the statement of changes in equity (recognized income and expense) until they are extinguished or realized, when they are recognized definitively as shareholders' equity through the consolidated income statement. The amounts arising from subsidiaries and jointly controlled entities are presented, on a line by line basis, in the appropriate items according to their nature.

It should be noted that the statement of recognized income and expense includes the changes to "Valuation adjustments" as follows:

- *Revaluation gains/losses:* includes the amount of the income, net of the expenses incurred in the year, recognized directly in equity. The amounts recognized in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- *Amounts transferred to income statement:* includes the amount of the revaluation gains and losses previously recognized in equity, even in the same year, which are recognized in the income statement.
- *Amounts transferred to the initial carrying amount of hedged items:* includes the amount of the revaluation gains and losses previously recognized in equity, even in the same year, which are recognized in the initial carrying amount of assets or liabilities as a result of cash flow hedges.
- *Other reclassifications:* includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognized gross, including the amount of the valuation adjustments relating to minority interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) Available-for-sale financial assets

This item includes the net amount of unrealized changes in the fair value of assets classified as available-for-sale financial assets.

The changes in the balance at December 31, 2008 with respect to the previous year relate mainly to the reduction arising from the loss of unrealized gains that were recognized in equity at 2007 year-end.

b) Cash flow hedges

This item includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognized in the consolidated income statement in the periods in which the hedged items affect it (see Note 41).

Accordingly, amounts representing valuation losses will be offset in the future by gains generated by the hedged instruments.

26. Shareholders' equity

a) Capital

Authorized capital is represented by 325,758,283 thousand registered shares without par value, being 174,292,416 thousands of ordinary shares and 151,465,867 thousands of preferred shares. The fully paid-up capital is composed as presented below:

	2008			2007		
Thousands of Shares:	**Common**	**Preferred**	**Total**	**Common**	**Preferred**	**Total**
Brazilian residents	2,734,410	3,993,767	6,728,177	498,688	2,048,621	2,547,309
Foreign residents	171,558,003	147,472,100	319,030,103	70,537,235	59,683,935	130,221,170
Total shares	**174,292,413**	**151,465,867**	**325,758,280**	**71,035,923**	**61,732,556**	**132,768,479**
Total in thousands of reais	**25,228,125**	**21,924,076**	**47,152,201**	**4,457,625**	**3,873,823**	**8,331,448**

The Extraordinary Stockholders' Meeting held on August 29, 2008 approved the increase in Banco Santander's total capital by R$38,920,753, of which R$38,020,753 were allocated to Capital and R$900,000 to Capital Reserves, through the issuance of 189,300,327,000 shares, of which 101,282,490,000 are common shares and 88,017,837,000 are preferred shared, without par value, related to the merger of shares of Banco Real and AAB Dois Par.

At the meeting held on June 4, 2008, the Board of Directors approved a capital increase of 3,689,477 thousand shares (1,974,003 thousand common shares and 1,715,474 thousand preferred shares), in the amount of R$800,000, ratified by the Extraordinary Stockholders' Meeting on July 25, 2008.

At the meeting held on April 25, 2007, the Board of Directors approved a capital increase of 9,612,358 thousand shares (5,142,958 thousand common shares and 4,469,400 thousand preferred shares), in the amount of R$1,500,000, which was approved at the Extraordinary Stockholders' Meeting on June 25, 2007.

b) Dividends and Interest on Capital

In accordance with the Bank's bylaws, stockholders are entitled to a minimum dividend equivalent to 25% of net income for the year, adjusted according to legislation. Preferred shares are nonvoting and nonconvertible, but have the same rights and advantages granted to common shares, in addition to priority in the payment of dividends 10% higher than those paid on common shares, and in the capital reimbursement, without premium, in the event of liquidation of the Bank.

Dividend payments have been prepared and will continue to be prepared in accordance with Brazilian Corporate Law.

Before the annual shareholders meeting, the Board of Directors may determine the payment of interim dividends out of earnings based on (i) semiannual balance sheets or earning reserves; or (ii) balance sheets issued on shorter periods, in which case the distribution of dividends shall not exceed the amount of capital reserves. These interim payments are offset against the annual mandatory dividend.

	2008		
		Reais per Thousand Shares	
	Thousands of Reais	Common	Preferred
Dividends based on interim net income for the year ended December 31, 2008	752,807	2.2084	2.4293
Dividends based on interim net income for the year ended December 31, 2008	217,193	0.6372	0.7009
Dividends based on reserves	3,045	0.0089	0.0098
Interest on capital(1) based on net income for the year ended December 31, 2008	480,000	1.4081	1.5489
Total proposed dividends	**1,453,045**		

(1) Common — R$1 1969 and Preferred — R$1 3166, net of tax

	2007		
	Thousands of Reais	Reais per Thousand Shares	
		Common	Preferred
Dividends based on interim net income for the year ended December 31, 2007	647,050	4.657	5.1227
Dividends based on interim net income for the year ended December 31, 2007	327,628	2.358	2.5938
Dividends based on interim net income for the year ended December 31, 2007	240,728	1.7326	1.9058
Dividends based on reserves	521,762	3.7553	4.1308
Interest on capital(1) based on interim net income for the year ended December 31, 2007	264,600	1.9044	2.0948
Interest on capital(2) based on interim net income for the year ended December 31, 2007	263,000	1.8929	2.0822
Total	**2,264,768**		

(1) Common — R$1 6187 and Preferred — R$1 7806, net of tax

(2) Common — R$1 6089 and Preferred — R$1 7698, net of tax

27. Operational Ratios

Financial institutions are required to maintain regulatory capital consistent with their activities, higher to the minimum of 11% of required capital. In July 2008 new regulatory capital measurement rules, under the Basel II Standardized Approach, went into effect, including a new methodology for credit risks and operational risks measurement, analysis and management. This ratio must be calculated on a consolidated basis, as shown below:

	Thousands of Reais
	2008
Adjusted Tier I Regulatory Capital	23,033,013
Tier II Regulatory Capital	8,504,338
Adjusted Regulatory Capital	**31,537,351**
Required Regulatory Capital	**23,527,735**
Adjusted Portion of Credit Risk	22,324,423
Market Risk Portions	916,186
Operational Risk Portion	287,126
Basel II Ratio(*)	**14.70**%

(*) Calculated in accordance with the requirements of the Brazilian Central Bank and disregards the effect of goodwill

The financial institutions must maintain investments in permanent assets consistent with their capital. Funds invested in permanent assets, determined on a consolidated basis, are limited to 50% of capital adjusted pursuant to prevailing regulation. Due to the recording of goodwill on the merger of the shares of Banco Real and AA Dois Par, Santander exceeded the limit for investment in permanent assets. The effect, arising exclusively from the mentioned corporate restructuring, does not represent any adverse impact on the financial position of Santander. As required by prevailing regulation, a regularization plan was prepared so that said limit is met, which was approved by the regulatory agency (Bacen).

28. Guarantees

The Bank provides a variety of guarantees to its customers to improve their credit standing and allow them to compete. The following table summarizes at December 31, 2008 and 2007 all of the guarantees.

As required, the *"maximum potential amount of future payments"* represents the notional amounts that could be lost if there were a total default by the guaranteed parties, without consideration of possible recoveries from collateral held or pledged, or recoveries under recourse provisions. There is no relationship between these amounts and probable losses on these guarantees. In fact, *maximum potential amount of future payments* significantly exceeds inherent losses.

	Thousands of Reais	
Maximum Potential Amount of Future Payments	**2008**	**2007**
Contingent liabilities:		
Guarantees and other sureties		
Financial guarantees	*20,804,663*	*11,704,554*
Performance guarantees	*745,792*	*170,556*
Financial standby letters of credit	*3,019,320*	*2,634,605*
Other	*195,239*	*325,985*
Other contingent exposures	640,296	463,529
Documentary Credits	*640,296*	*463,529*
Total Contingent Liabilities	**25,405,310**	**15,299,229**
Commitments:		
Loan commitments drawable by third parties	59,708,201	18,089,928
Other commitments	9,614,810	3,645,860
Securities placement commitments	*9,614,810*	*3,645,860*
Total Commitments	**69,323,011**	**21,735,788**
Total	**94,728,321**	**37,035,017**

Financial guarantees are provided to our clients in obligations with third parties. We have the right to seek reimbursement from our clients for any amount we shall have to pay under such guarantee. Additionally, we may hold cash or other highly liquid collateral for these obligations. These agreements are subject to the same credit evaluation performed on the execution of loans.

We expect many of these guarantees to expire without the need to advance any cash. Therefore, in the ordinary course of business, we expect that these transactions will have virtually no impact on our liquidity.

Performance guarantees are issued to guarantee customers obligations such as to make contractually specified investments, to supply specified products, commodities, or maintenance or warranty services to a third party, completion of projects in accordance with contract terms, etc. Financial standby letters of credit include guarantees of payment of loans, credit facilities, promissory notes and trade acceptances. The Bank always requires collateral to grant this kind of financial guarantees. In Documentary Credits, the Bank acts as a payment mediator between trading companies located in different countries (import-export transactions). Under a documentary credit transaction, the parties involved deal with the documents rather than the commodities to which the documents may relate. Usually the traded commodities are used as collateral to the transaction and the Bank may provide some credit facilities. Loan commitments drawable by third parties include mostly credit card lines and commercial commitments. Credit card lines are unconditionally cancelable by the issuer. Commercial commitments are mostly 1 year facilities subject to information requirements to be provided by our customers.

The risk criteria followed to issue all kinds of guarantees, financial standby letters of credit, documentary credits and any risks of signature are in general the same as those used for other products of credit risk, and therefore subject to the same admission and tracking standards. The guarantees granted on behalf of our customers are subject to the same credit quality review process as any other risk product. On a regular basis, at least once a year, the solvency of the mentioned customers is checked as well as the probability of those guarantees to be executed. In case that any doubt on the customer's solvency may arise we create allowances with charge to net income, by the amount of the inherent losses even if there is no claim to us.

Additionally, the liability recognized as deferred revenue for the premium received for providing the above guarantees, which is being amortized into income over the life of the related guarantees is R$58,520 thousands (2007, R$38,312).

29. Interest and similar income

"Interest and similar income" in the consolidated income statement comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value; and the rectifications of income as a result of hedge accounting. Interest is recognized gross, without deducting any tax withheld at source.

The breakdown of the main interest and similar income items earned in 2008 and 2007 is as follows:

	Thousands of Reais	
Net Balance	**2008**	**2007**
Balances with the Brazilian Central Bank	2,270,494	1,893,765
Loans and advances to credit institutions	1,818,645	701,693
Debt instruments	3,327,287	2,165,840
Loans and advances to customers	16,296,436	8,047,359
Other interest	54,952	388,711
Net gains	**23,767,814**	**13,197,368**

30. Interest expense and similar charges

"Interest expense and similar charges" in the consolidated income statement includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to pension funds.

The breakdown of the main items of interest expense and similar charges accrued in 2008 and 2007 is as follows:

	Thousands of Reais	
	2008	2007
Deposits from the Brazilian Central Bank	467	—
Deposits from credit institutions	1,630,639	1,362,276
Customer deposits	9,145,873	4,709,093
Marketable debt securities and subordinated liabilities		
Marketable debt securities (Note 18)	*548,834*	*276,493*
Subordinated liabilities	*690,014*	*451,828*
Pensions (Note 21)	91,437	112,619
Other interest	222,581	89,773
Total	**12,329,845**	**7,002,082**

31. Income from equity instruments

"Income from equity instruments" includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The breakdown of the balance of this item is as follows:

	Thousands of Reais	
	2008	2007
Equity instruments classified as:		
Financial assets held for trading	**7,627**	**16,089**
Of which		
Petroquimica Uniao S.A.	*2,654*	*5,256*
Available-for-sale financial assets	**29,345**	**20,298**
Of which		
Bovespa Holding S.A	*11,760*	—
SERASA S.A.	*3,721*	*8,273*
	36,972	**36,387**

32. Fee and commission income

"Fee and commission income" comprises the amount of all fees and commissions accruing in favor of the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The breakdown of the balance of this item is as follows:

	Thousands of Reais	
	2008	2007
Collection and payment services:		
Bills	218,979	127,514
Demand accounts	449,385	424,829
Cards	601,782	332,086
Checks and other	983,773	742,852
Orders	134,713	82,328
	2,388,632	**1,709,609**
Marketing of non-banking financial products:		
Investment funds	700,233	620,278
Insurance	643,810	428,216
Capitalization	102,185	17,902
	1,446,228	**1,066,396**
Securities services:		
Securities underwriting and placement	110,653	90,691
Securities trading	147,307	139,751
Administration and custody	64,232	22,580
Asset management	2,968	3,191
	325,160	**256,213**
Other:		
Foreign exchange	100,129	70,484
Financial guarantees	146,625	73,800
Other fees and commissions	402,240	187,016
	648,994	**331,300**
	4,809,014	**3,363,518**

33. Fee and commission expense

"Fee and commission expense" shows the amount of all fees and commissions paid or payable by the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The breakdown of the balance of this item is as follows:

	Thousands of Reais	
	2008	2007
Fees and commissions assigned to third parties	351,471	129,617
Of which Credit cards	*243,946*	*52,643*
Other fees and commissions	203,840	135,929
	555,311	**265,546**

34. Gains/losses on financial assets and liabilities

"Gains/losses on financial assets and liabilities" includes the amount of the valuation adjustments of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The breakdown of the balance of this item, by type of instrument, is as follows:

	Thousands of Reais	
	2008	2007
Held for trading(1)	(1,214,846)	254,128
Other financial instruments at fair value through profit or loss(2)	39,956	24,873
Financial instruments not measured at fair value through profit or loss	320,307	1,236,856
Of which		
Available-for-sale financial assets		
Debt instruments	*(15,476)*	*672,863*
Equity instruments	*260,855*	*547,343*
Hedging derivatives and other	(431,530)	807
	(1,286,113)	**1,516,664**

(1) In 2008, includes the net loss arising from the economic hedge of the Bank's position in Cayman, which is a non-autonomous subsidiary See Note 23 for the income tax impact of such hedge

(2) Includes the net gain arising from transactions involving debt securities, equity instruments and derivatives included in this portfolio, since the Bank manages its risk in these instruments on a global basis

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

	Thousands of Reais	
	2008	2007
Loans and advances to credit institutions	4,046,898	1,452,467
Loans and advances to customers	1,434,789	—
Debt instruments	10,105,273	8,730,600
Other equity instruments	678,993	340,267
Derivatives	9,295,008	3,416,973
	25,560,961	**13,940,307**

The detail of the amount of the liability balances is as follows:

	Thousands of Reais	
	2008	2007
Deposits from credit institutions	307,376	627,105
Customer deposits	—	63,180
Trading derivatives	11,197,268	4,564,131
Short positions	12,332	86,174
	11,516,976	**5,340,590**

35. Exchange differences

"Exchange differences" shows basically the gains or losses on currency dealings, the differences that arise on translations of monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

36. Other operating income and other operating expenses

These items in the consolidated income statement include:

	Thousands of Reais	
	2008	2007
Other operating income and (expenses)		
Other operating income	379,102	631,188
Other operating expense	(333,831)	(448,610)
Contributions to fund guarantee of credit	(105,088)	(49,654)
	(59,817)	**132,924**

37. Personnel expenses

a) *Breakdown*

The breakdown of "Personnel expenses" is as follows:

	Thousands of Reais	
	2008	2007
Wages and salaries	2,253,313	1,483,211
Social security costs	569,136	354,220
Additions to provisions for defined benefit pension plans (Note 21)	45,060	38,477
Contributions to defined contribution pension funds (Note 21)	33,166	3,919
Share-based payment costs(1)	19,647	87,603
Benefits	423,218	294,158
Other personnel expenses	204,622	122,679
	3,548,162	**2,384,267**

(Thousands of Brazilian Reais)

(1) In 2007, the amount includes R$77,292 thousands related to the distribution of 100 shares to each employee that is a part of Grupo Santander (Spain), as part of the celebration of its 150 years, as approved in the Stockholders' Meeting in June 2007

b) Share-based payments

i. The Bank

In recent years, Banco Santander, S.A. has set up remuneration programs tied to the performance of the stock market price of the its shares, based on the achievement of certain targets indicated below. These remuneration programs are also applicable to certain employees of its subsidiaries.

As contractually agreed with Banco Santander, S.A., Banco Santander (Brasil) S A., similar to other subsidiaries of the group, is required to cash settle the amounts of the liabilities derived from such employee benefits on a periodic basis.

The following share-based payment arrangements were in existence during the current and comparative periods:

		Euros				
	Number of Shares	Exercise Price	Year Granted	Employee Group	Date of Commencement of Exercise Period	Date of Expiry of Exercise Period
Plans outstanding at 1 January 2007	**6,032,700**	9.09		Managers	15/01/2008	15/01/2009
Options granted (Plan I09)	834,332	—	2007	Managers	23/06/2007	31/07/2009
Options granted (Plan I10)	1,243,355	—	2007	Managers	23/06/2007	31/07/2010
Options cancelled, net (Plan I06)	(113,700)	9.09		Managers	15/01/2008	15/01/2009
Plans outstanding at 31 December 2007	**7,996,687**					
Options exercised (Plan I06)	(4,657,550)	9.09	—	Managers		
Options granted (Plan I10)	—	—	2008	Managers		
Options granted (Plan I11)	2,311,231	—	2008	Managers		
Plans outstanding at 31 December 2008	**5,650,368**					
Of which						
Plan I06	*1,261,450*	*9.09*	*2006*	Managers	15/01/2008	15/01/2009
Plan I09	*834,332*	—	*2007*	Managers	23/06/2007	31/07/2009
Plan I10	*1,243,355*	—	*2007*	Managers	23/06/2007	31/07/2010
Plan I11	*2,311,231*	—	*2008*	Managers	21/06/2008	31/07/2011

The total cost of share-based payments is calculated at the inception date and accrued in a pro-rata basis. The changes in fair value between the grant date and the settlement date are hedged by the parent company. In 2008, pro rata expenses of R$19,647 (2007, R$10,311) were recorded related to the initial costs on the related grant dates for each of the above-mentioned cycles.

Plan I06

In 2004, Santander created a long-term incentive plan for its executives (I06), linked to the attainment of two goals related to the controlling stockholder's shares: appreciation of share price and growth of earnings per share. The conditions to receive the income were met and the variable compensation was paid from January 15, 2008 to January 15, 2009, at the price of €9.09 per stock option. The executives who had not exercised plan I-06 options by December 31, 2008 can no longer exercise this right from December 13, 2008 to January 15, 2009 since the quotation of Santander Bank's was below the base price established in the contract (€9.09).

Long-term incentive policy

The meeting of the Board of Directors' of Santander Spain, held on March 26, 2008, approved the long-term incentive policy intended for the executives of Banco Santander Spain and the Santander Group companies (except Banesto). This policy provides for compensation tied to the performance of the stock of Santander Spain, as established in the Annual Stockholders' Meeting.

Santander executives in Brazil already participate in the Stock Plan Tied to Goals: multiyear plan paid in shares of Banco Santander Spain. This plan's beneficiaries are the Executive Officers and other members of Top Management, as well as any other group of executives appointed by the Executive Board or the Executive Committee.

The plans shaping the aforementioned incentive policy are as follows: (i) Performance Share Plan; and (ii) Selective Delivery Share Plan. The characteristics of the plans are set forth below.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject. These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

(i) Performance share plan

This multiannual incentive plan is payable in shares of the Bank. The beneficiaries of the plan are the executive directors and other members of senior management, together with any other Bank executives determined by the board of directors or, when delegated by it, the executive committee.

This plan will involve successive three-year cycles of share deliveries to the beneficiaries, so that each year one cycle will begin and, from 2009 onwards, another cycle will also end. The aim is to establish an adequate sequence between the end of the incentive program linked to the previous Plan I06 and the successive cycles of this plan. Thus, the first two cycles commenced in July 2007, the first cycle having a duration of two years (PI09) and the second cycle having a standard three-year term (PI10). In June 2008 the third cycle of the performance share plan (PI11), to run for three years, was approved.

For each cycle a maximum number of shares is established for each beneficiary who remains in the Bank's employ for the duration of the plan. The targets, which, if met, will determine the number of shares to be delivered, are defined by comparing the Bank's performance with that of a benchmark group of financial institutions and are linked to two parameters, namely Total Shareholder Return (TSR) and growth in Earnings per Share (EPS).

The ultimate number of shares to be delivered will be determined in each of the cycles by the degree of achievement of the targets on the third anniversary of commencement of each cycle (with the exception of the first cycle, for which the second anniversary will be considered), and the shares will be delivered within a maximum period of seven months from the end of the cycle.

(Thousands of Brazilian Reais)

At the end of each cycle, the TSR and the EPS growth will be calculated for Santander and each of the benchmark entities and the results will be ranked from first to last. Each of the two criteria (TSR and EPS growth) will be weighted at 50% in the calculation of the percentage of shares to be delivered, based on the following scale and in accordance with Santander's relative position among the group of benchmark financial institutions:

Santander's Place in the TSR Ranking	Percentage of Maximum Shares to Be Delivered	Santander's Place in the EPS Growth Ranking	Percentage of Maximum Shares to be Delivered
1st to 6th	50%	1st to 6th	50%
7th	43%	7th	43%
8th	36%	8th	36%
9th	29%	9th	29%
10th	22%	10th	22%
11th	15%	11th	15%
12th and below	0%	12th and below	0%

Any benchmark group entity that is acquired by another company, whose shares cease trading or that ceases to exist will be excluded from the benchmark group. In an event of this or any similar nature, the comparison with the benchmark group will be performed in such a way that, for each of the measures considered (TSR and EPS growth) the maximum percentage of shares will be delivered if Santander ranks within the first quartile (including the 25th percentile) of the benchmark group; no shares will be delivered if Santander ranks below the median (50th percentile); 30% of the maximum amount of shares will be delivered if Santander is placed at the median (50th percentile). The linear interpolation method will be used for calculating the corresponding percentage for positions between the median and the first quartile (25th percentile) (neither included).

(ii) Selective delivery share plan

This plan envisages the selective delivery of shares in special circumstances relating to the hiring or retention of employees. All employees and executives, except for the Bank's executive directors, are eligible for this plan, provided that they have completed a minimum of three to four years of service at the Bank. Each participant will be entitled to receive the shares upon completion of the minimum period of service.

ii. Fair value

The fair value of each option granted by the Bank is calculated at the grant date. In order to value Plan I06 two valuation reports were performed by two multinational investment banks. These banks used the Black-Scholes equity option pricing model considering the following parameters: the expected life of the options, interest rates, volatility, exercise price, market price and dividends of the Bank shares and the shares of comparable banks. The fair value of the options granted was determined by management based on the average value resulting from the two valuations.

With the exception of the share option plans which include terms relating to market conditions, the transfer terms included in the vesting conditions are not taken into account to estimate fair value. The transfer terms that are not based on market conditions are taken into account by adjusting the number of shares or share options included in the measurement of the service cost of the employee so that, ultimately the amount recognized in the consolidated income statement is based on the number of shares or share options transferred. When the transfer terms are related to market conditions, the charge for the services received is recognized regardless of whether the market conditions for the transfer are met, although the non-market transfer terms must be satisfied. The share price volatility is based on the implicit volatility scale for the Bank's shares at the exercise prices and the duration corresponding to most of the sensitivities.

(Thousands of Brazilian Reais)

The fair value of the Performance Share Plans was calculated as follows:

- It was assumed that the beneficiaries will not leave the Bank's employ during the term of each plan.
- The fair value of the 50% linked to the Bank's relative TSR position was calculated, on the grant date, on the basis of the report provided by external valuators whose assessment was carried out using a Monte Carlo valuation model, performing 10,000 simulations to determine the TSR of each of the companies in the Benchmark Group, taking into account the variables set forth below. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate.

	PI09	PI10	PI11
Expected volatility(*)	16.25%	15.67%	19.31%
Annual dividend yield based on last few years	3.23%	3.24%	3.47%
Risk-free interest rate (Treasury Bond yield — zero coupon) over the period of the plan	4.473%	4.497%	4.835%

(*) calculated on the basis of historical volatility over the corresponding period (two or three years)

The application of the simulation model results in percentage values of 42.7% for PI09, 42.3% for PI10 and 44.9% for PI11, which are applied to 50% of the value of the options granted, in order to determine the cost per books of the TSR-based portion of the incentive. Since this valuation refers to a market condition, it cannot be adjusted after the grant date.

In view of the high correlation between TSR and EPS, it was considered feasible to extrapolate that, in a high percentage of cases, the TSR value is also valid for EPS. Therefore, it was initially determined that the fair value of the portion of the plans linked to the Bank's relative EPS position, i.e. of the remaining 50% of the options granted, was the same as that of the 50% corresponding to the TSR. Since this valuation refers to a non-market condition, it is reviewed and adjusted on a yearly basis.

38. Other general administrative expenses

a) Breakdown

The breakdown of the balance of this item is as follows:

	Thousands of Reais	
	2008	2007
Property, fixtures and supplies	552,538	363,463
Other administrative expenses	841,948	509,650
Technology and systems	636,739	197,445
Advertising	404,052	274,908
Communications	457,675	251,397
Technical reports	293,122	173,404
Per diems and travel expenses	114,150	73,505
Taxes other than income tax	55,365	66,891
Surveillance and cash courier services	275,423	160,559
Insurance premiums	5,763	4,728
	3,636,775	**2,075,950**

b) Other information

The balance of "Technical reports" includes the fees paid by the consolidated companies (detailed in the accompanying Appendix I) to their respective auditors, the detail being as follows:

	Thousands of Reais	
	2008	2007
Audit of the annual financial statements of the companies audited by Deloitte (constant scope of consolidation)	6,109	3,759
Audit of the annual financial statements of the companies audited by Deloitte (additions to scope of consolidation)	172	—
Services provided by audit firms other than Deloitte: R$3.0 million (2007: R$3.5 million).		

39. Gains/ (losses) on disposal of assets not classified as non-current assets held for sale

The breakdown of the balance of this item is as follows:

	Thousands of Reais	
	2008	2007
Gains	**19,701**	**12,759**
On disposal of tangible assets	13,162	12,759
On disposal of investments	6,539	—
Losses	**(13,090)**	**(11,898)**
On disposal of tangible assets	(13,090)	(11,898)
	6,611	**861**

40. Gains/ (losses) on non-current assets held for sale not classified as discontinued operations

The breakdown of the net balance of this item is as follows:

	Thousands of Reais	
Net Balance	2008	2007
Gains		
On disposal of tangible assets	49,859	—
Losses		
On impairment of tangible assets	(40,640)	13,470
Net gains	**9,219**	**13,470**

41. Other disclosures

a) Notional amounts and market values of trading and hedging derivatives

The breakdown of the notional and/or contractual amounts and the market values of the trading and hedging derivatives held by the Bank is as follows:

	Thousands of Reais			
	2008		2007	
	Notional Amount	Market Value	Notional Amount	Market Value
Trading derivatives:				
Interest rate risk and other —				
Interest rate swaps	55,901,265	15,868,331	43,381,285	8,574,099
Options — purchase and sales	154,139,645	(175,456)	154,863,541	(192,619)
Forward and futures contracts	43,271,519	7,788	17,315,277	534,658
Foreign currency risk —				
Currency swaps(1)	56,333,178	(17,867,750)	13,036,530	(8,258,183)
Options — purchase and sales	58,473,829	(1,559,102)	75,083,905	(1,690,998)
Forward and futures contracts	48,517,742	1,823,929	18,779,698	(114,115)
	416,637,178	**(1,902,260)**	**322,460,236**	**(1,147,158)**
Hedging derivatives:				
Interest rate risk —				
Futures contracts(2)	18,055,336	—	—	—
Interest rate swaps	1,701,594	(158,450)	—	—
	19,756,930	**(158,450)**	—	—
Total	**436,394,108**	**(2,060,710)**	**322,460,236**	**(1,147,158)**

(1) Includes credit derivatives, which the Bank uses to reduce or eliminate its exposure to specific risks arising from the purchase or sale of assets associated with the credit portfolio management In 2008, the volume of credit derivatives with total return rate — credit risk received corresponds to R$697,606 thousands of cost and R$696,162 thousands of fair value, and the credit risk volume transferred corresponds to R$94,852 thousands of cost and R$99 785 thousands of fair value During the period there

were no credit events related to events provided for in the contracts Required base capital used amounted to R$3,805 thousands

(2) The mark-to-market effect of these cash flow hedges, with maturity that varies from January 2, 2009 to January 2, 2012, is recorded directly in equity, and at December 31, 2008 corresponded to a debit of R$85,917, net of taxes The fair value of Certificate of Deposits designated as a hedged item was R$18,308,306 at December 31, 2008 No ineffective portion of such hedges, which would require recording in income, was identified during the period Futures-DI transactions designated as hedge instrument have daily adjustments and are recorded in assets or liabilities and settle in cash daily

The breakdown of the notional and/or contractual amounts of trading derivative by maturity is as follows:

	Thousands of Reais				
	2008				2007
	Up to 3 Months	From 3 to 12 Months	Over 12 Months	Total	Total
Swap	30,683,247	24,952,103	56,599,093	112,234,443	56,417,815
Options	143,684,039	34,764,025	34,165,410	212,613,474	229,947,446
Forward and futures contracts	41,150,841	17,508,341	33,130,079	91,789,261	36,094,975
	215,518,127	**77,224,469**	**123,894,582**	**416,637,178**	**322,460,236**

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk assumed by the Bank, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Bank basically to hedge the interest rate, underlying asset price or foreign currency risk; the results on these financial instruments are recognized under "Gains/losses on financial assets and liabilities (net)" in the consolidated income statements and increase or offset, as appropriate, the gains or losses on the investments hedged.

Additionally, in order to interpret correctly the results on the "Securities and Commodities Derivatives" shown in the foregoing table, it should be considered that these items relate mostly to securities options for which a premium has been received which offsets their negative market value. Also, this market value is offset by positive market values generated by symmetrical positions in the Bank's held-for-trading portfolio.

The Bank manages the credit risk exposure of these contracts through netting arrangements with its main counterparties and by receiving assets as collateral for its risk positions.

The detail of the cumulative credit risk exposure, by financial derivative, is as follows:

	Thousands of Reais	
	2008	2007
Securities derivatives	95,670	870,955
Currency derivatives	163,324,749	106,900,133
Interest rate derivatives	272,973,689	214,689,148
Total	**436,394,108**	**322,460,236**

b) Off-balance-sheet funds under management

The detail of off-balance-sheet funds managed by the Bank is as follows:

	Thousands of Reais	
	2008	2007
Investment funds	76,777,598	55,911,429
Assets under management	3,624,448	2,380,294
	80,402,046	**58,291,723**

c) Third-party securities held in custody

At December 31, 2008, the Bank held in custody debt securities and equity instruments totaling R$80,454,575 thousand entrusted to it by third parties.

d) Residual maturity periods and average interest rates

The breakdown, by maturity, of the balances of certain items in the consolidated balance sheets is as follows:

	December 31, 2008							
	Thousands of Reais							
	On Demand	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	After 5 Years	Total	Average Interest Rate
Assets:								
Cash and balances with the Brazilian Central Bank	10,180,498	11,570,645	1,949,357	—	—	—	23,700,500	9.7%
Debt instruments	—	5,067,650	4,254,433	14,092,854	10,826,959	5,354,568	39,596,464	14.9%
Equity instruments	1,923,483	—	—	—	—	—	1,923,483	—
Loans and receivables:								
Loans and advances to credit institutions	2,341,914	16,054,833	6,009,372	3,023,897	212,747	6,095,770	33,738,533	9.9%
Loans and advances to customer, gross	8,050,623	37,176,761	41,720,532	32,897,225	15,903,692	6,900,583	142,649,416	25.4%
	22,496,518	**69,869,889**	**53,933,694**	**50,013,976**	**26,943,398**	**18,350,921**	**241,608,396**	**19.8%**
Liabilities:								
Deposits from the Brazilian Central Bank	—	—	184,583	—	—	—	184,583	6.2%
Deposits from credit institutions	1,188,957	3,652,291	12,815,453	5,639,095	2,387,885	641,955	26,325,636	8.5%
Customer deposits	36,374,095	38,129,028	25,625,227	35,907,327	18,618,151	841,011	155,494,839	12.4%
Marketable debt securities	—	3,948,416	3,796,188	2,346,840	1,273,523	720,688	12,085,655	9.0%
Subordinated liabilities	—	6,431	103,865	—	2,407,277	6,679,856	9,197,429	13.8%
Other financial liabilities	1,997,660	4,376,111	4,338,811	(45,998)	18,588	—	10,685,172	—
	39,560,712	**50,112,277**	**46,864,127**	**43,847,264**	**24,705,424**	**8,883,510**	**213,973,314**	**11.2%**
Difference (assets less liabilities)	**(17,064,194)**	**19,757,612**	**7,069,567**	**6,166,712**	**2,237,974**	**9,467,411**	**27,635,082**	

	December 31, 2007							
	Thousands of Reais							
	On Demand	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	After 5 Years	Total	Average Interest Rate
Assets:								
Cash and balances with the Brazilian Central Bank	7,446,337	14,830,604	—	—	—	—	22,276,941	12.2%
Debt instruments	—	1,505,323	2,117,279	3,797,605	3,054,335	4,940,818	15,415,360	16.3%
Equity instruments	2,958,964	—	—	—	—	—	2,958,964	—
Loans and receivables:								
Loans and advances to credit institutions	288,356	2,137,002	1,437,462	631,592	165,905	2,623,328	7,283,645	9.7%
Loans and advances to customer, gross	528,605	14,237,487	14,381,151	14,726,057	5,381,749	2,197,465	51,452,514	21.1%
	11,222,262	**32,710,416**	**17,935,892**	**19,155,254**	**8,601,989**	**9,761,611**	**99,387,424**	**16.9%**
Liabilities:								
Deposits from credit institutions	75,170	10,999,016	4,362,706	2,144,205	876,959	386,061	18,844,117	7.5%
Customer deposits	13,230,450	19,846,528	8,759,480	11,179,907	2,194,093	—	55,210,458	10.3%
Marketable debt securities	—	604,122	901,583	1,075,381	11,723	212,608	2,805,417	10.1%
Subordinated liabilities	—	2,140	—	—	—	4,208,084	4,210,224	10.6%
Other financial liabilities	494,248	2,002,444	1,904,290	—	—	—	4,400,982	—
	13,799,868	**33,454,250**	**15,928,059**	**14,399,493**	**3,082,775**	**4,806,753**	**85,471,198**	**9.2%**
Difference (assets less liabilities)	**(2,577,606)**	**(743,834)**	**2,007,833**	**4,755,761**	**5,519,214**	**4,954,858**	**13,916,226**	

e) Equivalent reais value of assets and liabilities

The detail of the main foreign currency balances in the consolidated balance sheet, based on the nature of the related items, is as follows:

	Equivalent Value in Thousands of Reais			
	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Cash and balances with the Brazilian Central Bank	1,870,340	—	162,760	—
Financial assets/liabilities held for trading	401,283	1,901,874	23,905	955,598
Available-for-sale financial assets	115,480	—	—	—
Loans and receivables	13,568,903	—	3,346,422	—
Financial liabilities at amortized cost	—	31,464,106	—	10,052,594
	15,956,006	**33,365,980**	**3,533,087**	**11,008,192**

f) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Bank are measured at fair value in the accompanying consolidated balance sheet, except for loans and receivables and equity instruments whose market value cannot be estimated reliably.

Similarly, the Bank's financial liabilities -except for financial liabilities held for trading and those measured at fair value — are measured at amortized cost in the consolidated balance sheet.

i) Financial assets measured at other than fair value

Following is a comparison of the carrying amounts of the Bank's financial assets measured at other than fair value and their respective fair values at year-end:

	Thousands of Reais			
	2008		2007	
Assets	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans and receivables:				
Loans and advances to credit institutions (Note 5)	29,691,635	30,374,956	5,831,178	5,830,370
Loans and advances to customers (Note 9)	133,033,471	127,044,873	49,203,082	48,993,464
	162,725,106	**157,419,829**	**55,034,260**	**54,823,834**

ii) Financial liabilities measured at other than fair value

Following is a comparison of the carrying amounts of the Bank's financial liabilities measured at other than fair value and their respective fair values at year-end:

	Thousands of Reais			
	2008		2007	
Liabilities	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities at amortized cost:				
Deposits from the Brazilian Central Bank (Note 16)	184,583	184,583	—	—
Deposits from credit institutions (Note 16)	26,325,636	26,187,014	18,217,012	18,177,132
Customer deposits (Note 17)(*)	155,494,839	155,173,062	55,147,278	55,119,026
Marketable debt securities (Note 18)	12,085,655	12,009,351	2,805,417	2,806,198
Subordinated liabilities (Note 19)	9,197,429	9,161,607	4,210,224	4,208,067
Other financial liabilities (Note 20)	10,685,172	10,832,240	4,400,982	2,542,530
	213,973,314	**213,547,857**	**84,780,913**	**82,852,953**

(*) For these purposes, the fair value of customer demand deposits, which are included within customer deposits, are taken to be the same as their carrying amount

42. Operating segments

The Bank has early adopted IFRS 8 for the fiscal year ending December 31, 2008. In accordance with such standard, an operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

Following such guidance, the Bank has identified the following business segments as its operating segments:

- Commercial Banking,
- Global Wholesale Banking,
- Asset Management and Brokerage.

The Commercial Banking segment encompasses the entire commercial banking business (except for the CorporateBanking business managed globally using the Global Relationship Model). The Asset Management and Insurance segment includes the contribution to the Bank arising from the design and management of the investment fund, pension and insurance businesses of the various units. The Global Wholesale Banking segment reflects the returns on the Global Corporate Banking business, those on Investment Banking and Markets worldwide, including all the globally managed treasury departments and the equities business.

The condensed income statements and other significant data are as follows:

	Thousands of Reais							
	2008				2007			
	Commercial Banking	Global Wholesale Banking	Asset Management and Brokerage	Total	Commercial Banking	Global Wholesale Banking	Asset Management and Brokerage	Total
NET INTEREST INCOME	**10,191,650**	**1,213,502**	**32,817**	**11,437,969**	**5,491,818**	**693,259**	**10,209**	**6,195,286**
Income from equity instruments	36,972	—	—	36,972	36,387	—	—	36,387
Share of results of entities accounted for using the equity method	112,330	—	—	112,330	5,884	—	—	5,884
Net fee and commission income	3,602,255	449,289	202,159	4,253,703	2,694,428	253,022	150,522	3,097,972
Gains/losses on financial assets and liabilities	(358,011)	540,636	7,041	189,666	944,229	950,485	3,537	1,898,251
Other operating income/(expenses)	(21,570)	(37,782)	(465)	(59,817)	143,362	(10,412)	(26)	132,924
TOTAL INCOME	**13,563,626**	**2,165,645**	**241,552**	**15,970,823**	**9,316,108**	**1,886,354**	**164,242**	**11,366,704**
Personnel expenses	(3,104,942)	(403,671)	(39,549)	(3,548,162)	(2,071,426)	(277,737)	(35,104)	(2,384,267)
Other administrative expenses	(3,485,160)	(129,640)	(21,975)	(3,636,775)	(1,963,009)	(95,500)	(17,441)	(2,075,950)
Depreciation and amortization of tangible and intangible assets	(797,536)	(44,065)	(4,404)	(846,005)	(528,960)	(43,027)	(7,759)	(579,746)
Provisions (net)	(1,160,918)	(38,638)	(30,761)	(1,230,317)	(1,192,553)	7,654	(11,513)	(1,196,412)
Net impairment losses on financial assets	(4,076,108)	(23,176)	—	(4,099,284)	(2,164,523)	5,075	11	(2,159,437)
Net impairment losses on non-financial assets	(77,267)	—	(10)	(77,277)	(298,085)	—	3	(298,082)
Other non-financial gains/(losses)	15,830	—	—	15,830	14,331	—	—	14,331
PROFIT/(LOSS) BEFORE TAX	**877,525**	**1,526,455**	**144,853**	**2,548,833**	**1,111,883**	**1,482,819**	**92,439**	**2,687,141**
Other aggregates:								
Total assets	243,957,824	50,232,023	—	294,189,847	85,783,918	22,535,315	—	108,319,233
Loans and advances to customers	106,317,159	28,151,101	—	134,468,260	38,513,016	10,690,066	—	49,203,082
Customer deposits	117,516,868	37,977,971	—	155,494,839	46,720,925	8,489,533	—	55,210,458

Additionally, the Bank does not have any customers that individually accounted for 10% or greater of our interest and similar income for 2008 and 2007.

43. Related party transactions

The parties related to the Bank are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the ordinary business transactions performed by the Bank with its related parties:

a) Management compensation

i) Short-term benefits

Board of Directors' and Executive Board's compensation:

	Thousands of Reais	
	2008	**2007**
Fixed compensation	16,017	9,321
Variable compensation	55,421	56,160
Other	4,335	3,462
Total	**75,773**	**68,943**

ii) Contract termination

Employment contracts have an undefined period. The termination of the employment relationship for non-fulfilment of obligations or voluntarily does not entitle executives to any financial compensation. In the case of termination of contracts by the Bank, executives will be entitled to receive R$2,219 as compensation.

iii) Other information

Lending operations

In conformity with prevailing regulations, financial institutions cannot grant loans or advances to:

a) any individuals or legal entities that control the institution or any entity under joint control with the institution, or any officer, member of the board of directors, member of the supervisory board, or member of the immediate family of such individuals;

b) any entity controled by the institution; or

c) any entity in which the Bank holds, directly or indirectly, 10% or more of the capital.

Accordingly, loans or advances are not granted to any subsidiaries, executive officers, members of the board of directors or their families.

(Thousands of Brazilian Reais)

Ownership Interest

The table below shows the direct interest (common shares and preferred shares) as of December 31, 2008 exceeding five percent of total shares.

	2008					
Stockholders'	**Common Shares**	**Common Shares (%)**	**Preferred Shares**	**Preferred Shares (%)**	**Total Shares**	**Total Shares (%)**
Grupo Empresarial Santander, S.L.(1)	72,504,460	41.60	61,391,761	40.53	133,896,221	41.10
Sterrebeeck B.V.(1)	99,048,194	56.83	86,076,161	56.83	185,124,355	56.83
Members of the Board of Directors	(*)	(*)	(*)	(*)	(*)	(*)
Members of the Executive Board	(*)	(*)	(*)	(*)	(*)	(*)
Other	2,739,762	1.57	3,997,945	2.64	6,737,707	2.07
Total	**174,292,416**	**100.00**	**151,465,867**	**100.00**	**325,758,283**	**100.00**

(*) None of the members of the Board of Directors and the Executive Board holds 1 0% or more of any class of shares

(1) Companies of the Santander Spain Group

The table below shows the direct interest (common shares and preferred shares) as of December 31, 2007 exceeding five percent of total shares.

	2007					
Stockholders'	**Common Shares**	**Common Shares (%)**	**Preferred Shares**	**Preferred Shares(%)**	**Total Shares**	**Total Shares (%)**
Grupo Empresarial Santander, S.L.(1)	70,531,883	99.29	59,679,756	96.67	130,211,639	98.07
Sterrebeeck B.V.(1)	—	—	—	—	—	—
Members of the Board of Directors	(*)	(*)	(*)	(*)	(*)	(*)
Members of the Executive Board	(*)	(*)	(*)	(*)	(*)	(*)
Other	504,040	0.71	2,052,800	3.33	2,556,840	1.93
Total	**71,035,923**	**100.00**	**61,732,556**	**100.00**	**132,768,479**	**100.00**

(*) None of the members of the Board of Directors and the Executive Board holds 1 0% or more of any class of shares

(1) Companies of the Santander Spain Group

b) Related-Party Transactions

Transactions among the entities of Santander are carried out under usual market rates and terms, comparable to those applied in transactions with unrelated parties.

The principal transactions and balances are as follows:

	Thousands of Reais			
	2008		2007	
	Joint-Controlled Companies	Related-Party	Joint-Controlled Companies	Related-Party
Assets				
Cash and balances with the Brazilian Central Bank	—	714,127	—	36,509
Loans and advances to credit institutions	455,844	10,587,034	—	1,585,601
Trading derivatives	—	1,501,689	—	175,573
Trading Account	—	18,865	—	2,535
Other Assets	111	125,237	—	43,894
Liabilities				
Customer deposits	(85,198)	(120,400)	—	(58,947)
Deposits from credit institutions	(39,229)	(5,471,056)	—	(1,323,936)
Trading derivatives	—	(1,667,390)	—	(123,441)
Other Liabilities — Dividends and Bonuses Payable	—	(1,352,252)	—	(1,411,683)
Other Payables — Other	(7,925)	(40,534)	—	(5,154)
Income				
Interest and similar income	6,167	33,348	—	57,273
Interest expense and similar charges	(8,153)	(563,271)	—	(62,828)
Gains/losses on financial assets and liabilities	—	(675,087)	—	149,703
Other income expenses	—	(175,929)	—	14,323

44. Risk management

Risk management at the Santander Brazil follow that same principles that are set at the Group level:

- Independence of the risk function with respect to the business. The head of the Bank's Risk Division, reports directly to the executive committee and the board. The local risk unit keeps its independence with a direct report to the Corporate risk Unit.
- Commitment to supporting the business by contributing, without undermining the preceding principle, to the achievement of commercial objectives whilst safeguarding risk quality. To this end, the organizational structure responsible for implementing risk policies is adapted to the commercial structure so as to encourage cooperation between business and risk managers.
- Collective decisions (even at branch level), which ensure that different opinions are taken into account and avoid situations in which decisions are taken individually.
- Well-established tradition of using internal rating and scoring tools, return on risk-adjusted capital (RORAC), value-at-risk (VaR), economic capital, extreme scenario analyses, etc.
- Global approach, achieved by addressing on an integrated basis all the risk factors in all the business units and geographical locations, and using the concept of economic capital as a consistent measure of the risk assumed and as the basis for assessing the management performed.

- Desire to continue to target a medium-low risk profile, emphasizing its low volatility and its predictability, by:
  - seeking to achieve a high degree of risk diversification, thus limiting risk concentration on particular customers, groups, sectors, products or geographical locations;
  - maintaining a low level of complexity in Markets operations;
  - paying ongoing attention to risk monitoring in order to prevent potential portfolio impairment sufficiently in advance.

At Santander Brazil, the risk management and control process has been structured using as reference the framework defined at corporate level and described according to the following phases:

- Adaptation of corporate risk management frameworks and policies that reflect Santander's risk management principles.

  The Santander Brazil has been adopting a series of risk policies and procedures that constitute its regulatory framework, which, taking the form of circulars, frameworks (formerly the Risk Management Policy Manuals) and operating rules, regulates the risk activities and processes.

  Within this regulatory framework, the Corporate Risk Management Framework, approved by Senior Management (Risks), regulates the principles and standards governing the general modus operandi of the Santander Brazil's risk activities, based on the corporate organizational and a management models.

  The organizational model comprises the management map, the risk function and governance, and the regulatory framework itself. The management model contains the basic pillars for risk management, the channels for the planning and setting of targets, the budgeting and risk limit setting process, the control of operations, the framework for risk reporting to senior management and the technological reference model for risk management.

  One of the main characteristics of this Corporate Risk Management Framework is that it leads to the regulation, through a series of more specific corporate frameworks, of the functions reporting to the Risk Unit.

- Identification of risks, through the constant review and monitoring of exposures, the assessment of new products and businesses and the specific analysis of singular transactions;
- Measurement of risks using extensively tested methods and models;
- Preparation and distribution of a complete set of reports that are reviewed daily by the heads at all levels of Santander management;

Implementation of a risk control system which checks, on a daily basis, the degree to which Santander Brazil's risk profile matches the risk policies approved and the risk limits set. The most noteworthy corporate tools and technics (above mentioned) already in use in Santander Bank are in different stages of maturity regarding the level of implementation and use in Santander Brazil. For wholesale segment, these technics are quite in line with the corporate level development. For local segments, internal ratings and scorings based models, VaR and market risk scenario analysis and stress testing have been already embbebed in risk management routine while Expected loss, Economic Capital and RORAC have been recently started.

- Internal ratings- and scorings-based models which, by assessing the various qualitative and quantitative risk components by customer and transaction, make it possible to estimate, firstly, the probability of default and, subsequently, the expected loss, based on LGD estimates.

- Economic capital, as a homogeneous measure of the risk assumed and a basis for the measurement of the management performed.
- RORAC, which is used both as a transaction pricing tool (bottom-up approach) and in the analysis of portfolios and units (top-down approach).
- VaR, which is used for controlling market risk and setting the market risk limits for the various trading portfolios.
- Scenario analysis and stress testing to supplement market and credit risk analyses in order to assess the impact of alternative scenarios, even on provisions and capital.

Santander Brazil intends to use the internal Models for the calculation of regulatory capital and for this has agreed a timetable with the home supervisor. This plan is currently under revision due to the Banco Real's acquirement. Notwithstanding, the Santander Brazil has defined a Basel2 governance structure and has assigned for this purpose, all the human and technology resources necessary to meet the stringent requirements established by the Bank of Spain, the supervisory authority responsible for the validation of these internal models. It is also important to mention that this Basel2 governance structure is also responsible to incorporate the local regulator requirements and assures the compliance with these requirements.

I. CORPORATE GOVERNANCE OF THE RISK FUNCTION

The risk committee framework for Santander Brazil is set based on corporate risk standards. The executive risk committees have their level of approvals delegated by the the risk committee at Santander Bank, an executive body that adopts decisions within the scope of the powers delegated by the board, is presided over by the third deputy chairman of the Santander Bank and also comprises a further four directors of the Bank. The Executive committees are responsible for ensuring that the local risk policies are implemented and ensures that the Santander Brazil's activities are consistent with its risk tolerance level for the main risk exposures approved by Santander Bank. Those exposures are systematically reviewed and presented to these committees that also decide upon any transactions that exceed the powers delegated to lower-ranking bodies. The executive risk committee is also responsible for advicing the Group Risk Committee about the proposals that exceeed its level of approval.

The executive risk committees take place on weekly basis evidencing the importance that the Santander Brazil attaches to the proper management of its risks.

The responsibilities assigned to the executive risk committee are essentially as follows:

- To ensure to the Senior Management of the Bank, that the local policies are implemented and followed in accordance with the corporate standards including:
  - The various types of risk (financial, operational, technological, legal and reputational, inter alia) facing the Bank;
  - The information and internal control systems to be used to control and manage these risks;
  - The level of risk deemed acceptable by the Bank;
  - The measures envisaged to mitigate the impact of the identified risks in the event that they materialize.
- To conduct systematic reviews of the Bank's exposure to its main customers, economic activity sectors, geographical areas and types of risk.

- To authorize the local management tools and risk models and ascertain the result of their internal validation.
- To ensure that the Santander Brazil's actions are consistent with the level of risk tolerance previously approved at group level.
- To be informed of, assess and follow any remarks and recommendations that may be periodically made by the supervisory authorities in discharging their function.
- To resolve transactions outside the powers delegated to lower-ranking bodies and the overall limits for pre-classified risk categories in favor of economic groups or in relation to exposure by type of risk.

The executive risk committee has delegated certain of its powers to risk committees which are structured by, business line, type and segment of risk. The risk function at the Santander Brasil is performed through an Executive Risk Unit, which is independent from the business areas from both a hierarchical and a functional standpoint. This Executive Risk Unit directly reports to the CEO of the Santander Brazil and to the Head of Risk of Santander Bank.

- In Santander Brazil the Executive Risk Unit has divided into two blocks:
  - A control and methodology structure, which adapts the risk policies, methodologies and control systems and consists of several units organized by type of risk (solvency, market risks and methodology).
  - A business structure, centered on the performance and management integration of the risk function in the Santander Brazil's retail, corporate and wholesale businesses.

Santander Brazil follows the same risk policy of Santander's Bank that is oriented towards maintaining a predictable medium-low risk profile, as regards both credit and market risks. Following is an analysis of the Bank's main types of risk: credit, market, operational and reputational risks.

II. CREDIT RISK

II.1 Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Bank.

The specialization of the Bank's risk function is based on the type of customer and, accordingly, a distinction is made between individualized customers and standardized customers in the risk management process:

- Individualized customers are defined as those to which a risk analyst has been assigned, basically because of the risk assumed. This category includes wholesale banking customers, financial institutions and certain enterprises belonging to retail banking. Risk management is performed through an analysis supplemented by decision-making support tools based on internal risk assessment models.
- Standardized customers are those which have not been expressly assigned a risk analyst. This category generally includes individuals, individual entrepreneurs, and retail banking enterprises not classified as individualized customers. Management of these risks is based on internal risk assessment and automatic decision-making models, supplemented subsidiarily, when the model is not comprehensive enough or is not sufficiently accurate, by teams of analysts specializing in this type of risk.

II.2 Main aggregates and variations

The profile of the credit risk assumed by the Bank is characterized by a diversified geographical distribution and the prevalence of retail banking operations.

a. Map of credit risk — 2008

The following table shows the map of credit risk, expressed in nominal amounts (with the exception of exposure in derivatives and repos, which is expressed in credit risk equivalent), to which the Bank was exposed at December 31 2008 (in thousands of Reais).

SANTANDER BANK — GROSS CREDIT RISK EXPOSURE AS OF DECEMBER 31, 2008

Customer Draw -Downs	Drawable by Customers	Sovereign Fixed-Income (Excl. Trad.)	Private Fixed-Income (Excl. Trad.)	Credit Institution Drawdowns	Drawable by Credit Institutions	Derivatives and Repos (CRE)	Total	%	Change/ Dec-07
168,595,675	66,066,011	28,155,752	2,619,668	34,124,294	—	9,942,309	309,503,709	9.4%	116.8%

Data at 31/12/08

CRE (Credit Risk Equivalent: net replacement value plus maximum potential value Includes credit risk mitigants)

Balances drawn down by customers exclude repos

Balances with credit institutions (excluding repos and trading portfolio) include R$20,481,599 thousand of deposits at the Brazilian Central Bank

2008 was characterized by a slowdown in lending growth, reflecting the lower demand for credit. The nominal credit risk exposure increased by 18.35% year-on-year (considering Banco Real growth in 2008), particularly as a result of the rise in credit institution and customer drawdowns.

b. Variations in main aggregates in 2008

The changes in non-performing loans and the cost of credit reflect the impact of the across-the-board deterioration of the economic environment, mitigated by prudent risk management, which enabled the Bank to hold these data at adequate levels. As a result, the Bank maintained a significant NPL coverage ratio and a high level of allowance for incurred losses not specifically identified.

The non-performing loans ratio increased by 147 basis points in the year to stand at 4.48% in December 2008. The NPL coverage ratio was 105.8%, as compared with a coverage ratio of 107.5% at 2007 year-end.

Credit Risk Exposure to Customers (*)		Non-Performing Loans Ratio (%)		Impairment Coverage Ratio (%)		Specific Credit Loss Provisions, Net of RAWO(**)		Cost of Credit(1) (% of Risk)	
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
(Thousands of Reais)						(Thousands of Reais)			
172,425,538	66,650,457	4.48	3.14	105.8	107.5	8,181,156	2,249,432	4.45	4.02

Data prepared on the basis of management criteria Memorandum item Spain for 2008, on basis of controller's unit accounting criteria

(*) Includes gross loans and advances to customers, guarantees and documentary credits

(**) RAWO = Recoveries of Assets Written Off

c. Distribution of credit risk

The Bank is well diversified within segments and products and concentrates its activities on its core markets. Retail business represents 54% and non-retail 46% of total credit assets.

II.3 Measures and measurement tools

a. Rating tools

Santander has used proprietary internal rating models to measure the credit quality of a given customer or transaction. Each rating relates to a certain probability of default or non-payment, determined on the basis of the Entity's historical experience, with the exception of certain portfolios classified as "low default portfolios". More than 50 internal rating models are used in the Bank's loan approval and risk monitoring process.

Global rating tools are applied to the sovereign risk, financial institutions and global wholesale banking segments. Management of these segments is centralized at Bank level, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's judgment.

For the corporate and individualized institutions segments, the Parent of the Santander Bank has defined a single methodology for the construction of a rating system in each country, based on the same modules as the above-mentioned ratings: a quantitative or automatic module (analyzing the credit performance of a sample of customers and the correlation with their financial statements), a qualitative or analyst judgment module, and final reviews.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

For standardized customers, both legal entities and individuals, the Bank has scoring tools that automatically assign a score to the proposed transactions.

These loan approval systems are supplemented by performance rating models. These tools provide enhanced predictability of the risk assumed and are used for preventive and marketing activities.

b. Credit risk parameters

The estimates of the risk parameters (PD, LGD and EAD) should be based on internal experience, i.e. on default observations and on the experience in defaulted loan recoveries.

For portfolios with scant internal default experience, such as banks, sovereign risk or global wholesale banking, the parameters are estimated globally. These portfolios are known as "low default portfolios".

For all other portfolios, parameter estimates are based on the Bank's internal experience. In the case of SMEs, the balance sheet information is used not only to assign the rating, but also to obtain factors which explain the probability of default. In retail portfolios, the PD is calculated by observing the cases of new arrears in relation to the scoring assigned to the related transactions.

(Thousands of Brazilian Reais)

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account not only the income and expenses associated with the recovery process, but also the timing thereof and the indirect costs arising from the recovery process.

EAD is estimated by comparing the use of committed facilities at the time of default and their use under normal (performing) circumstances, so as to identify the actual use of the facilities at the time of default.

The estimated parameters are then assigned to performing, i.e. non-defaulted, loans. The assignment is different for low-default portfolios and for other portfolios. In the case of low-default portfolios, which are also global management portfolios, parameters are assigned in the same way in all the Bank units.

By contrast, the retail portfolios have specific scoring systems in each of the Bank's units, which require the performance of separate estimates and the assignation of parameters in a particular manner in each case.

c. Master rating scale

In order to achieve equivalent internal ratings in the different models available — corporate, sovereign risk, financial institutions and other segments — and to make them comparable with the external ratings of rating agencies, the Bank has a so-called master rating scale.

The equivalence is established through the probability of default associated with each rating. Internally calibrated PDs are compared against the default rates associated with the external ratings, which are published periodically by rating agencies.

Internal Rating	Probability of Default	Equivalence with: Standard & Poor's	Equivalence with: Moody's
9.3	0.017%	AAA	Aaa
9.2	0.018%	AA+	Aa1
9.0	0.022%	AA	Aa2
8.5	0.035%	AA−	Aa3
8.0	0.06%	A+	A1
7.5	0.09%	A	A2
7.0	0.14%	A−	A3
6.5	0.23%	BBB+	Baa1
6.0	0.36%	BBB	Baa2
5.5	0.57%	BBB−	Baa3
5.0	0.92%	BB+	Ba1
4.5	1.46%	BB	Ba2
4.0	2.33%	BB/BB−	Ba2/Ba3
3.5	3.71%	BB-/B+	Ba3/B1
3.0	5 92%	B+/B	B1/B2
2.5	9.44%	B	B2
2.0	15.05%	B−	B3
1.5	24.00%	CCC	Caa1
1.0	38.26%	CC/C	Caa1/Caa2

d. Distribution of EAD and associated EL

The table below details the distribution, by segment, of the credit risk exposure in terms of EAD. Approximately 60% of total risk exposure to customers (excluding sovereign and counterparty risk and other Assets) relates to the SME and individuals financing segments, which reflects the commercial orientation of the Santander Bank's business and risks. The expected loss arising from customer exposure is 4.91% of the Bank's total credit risk exposure, and, accordingly, the profile of the credit risk assumed can be classified as medium-low.

	Segmentation of Credit Risk Exposure				
	EAD (Millions of Reais)	%	Average PD (%)	Average LGD	EL
Public sector	812	0.6	8.80	74.60	53
Corporate	49,635	37.3	2.30	36.57	418
SMEs	20,955	15.7	6.53	65.76	899
Mortgage loans to individuals	4,400	3.3	3.67	40.00	65
Consumer loans to individuals	48,081	36.1	7.66	51.88	1,910
Credit cards — individuals	6,444	4.8	3.20	68.30	141
Other assets	2,889	2.2	—	—	22
Total	**133,216**	**100.0**	**5.02**	**52.15**	**3,485**

Data at December 2008

Excluding doubtful assets/non-performing loans

II.4. Observed loss: measures of cost of credit

To supplement the use of the advanced models described above (see related data in the "Economic Capital" section), other habitual measures are used to facilitate prudent and effective management of credit risk based on observed loss.

The cost of credit risk at the Bank is measured using different approaches: variation in non-performing loans in the recovery process (ending doubtful assets — beginning doubtful assets + assets written off — recovery of assets written off), net credit loss provisions (provisions to specific allowances — recovery of assets written off); and net assets written off (assets written off — recovery of assets written off).

II.5 Credit risk cycle

The risk management process consists of identifying, measuring, analyzing, controlling, negotiating and deciding on, as appropriate, the risks incurred in the Bank's operations. The parties involved in this process are the risk taking areas, senior management and the risk function.

The process begins at senior management level, through the board of directors and the risk committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale:

- *Pre-sale:* this phase includes the risk planning and target setting processes, determination of the Bank's risk appetite, approval of new products, risk analysis and credit rating process, and limit setting.
- *Sale:* this is the decision-making phase for both pre-classified and specific transactions.

- *Post-sale:* this phase comprises the risk monitoring, measurement and control processes and the recovery process.

a. Risk limit planning and setting

Risk limit setting is a dynamic process that identifies the Bank's risk appetite by assessing business proposals and the attitude to risk.

This process is defined in the global risk limit plan, an agreed-upon comprehensive document for the integrated management of the balance sheet and the inherent risks, which establishes risk appetite on the basis of the various factors involved.

The risk limits are founded on two basic structures: customers/segments and products.

For individualized risks, customers represent the most basic level, and individual limits are established (pre-classification) when certain features, generally of relative importance, concur.

For large corporate groups a pre-classification model, based on an economic capital measurement and monitoring system, is used. As regards the corporate segment, a simplified pre-classification model is applied for customers meeting certain requirements (thorough knowledge, rating, etc.).

In the case of standardized risks, the risk limits are planned and set using the credit management programs (PGC, using the Spanish acronym), a document agreed upon by the business areas and the risk units and approved by the risk committee or its delegated committees, which contains the expected results of transactions in terms of risk and return, as well as the limits applicable to the activity and the related risk management.

b. Risk analysis and credit rating process

Risk analysis is a pre-requisite for the approval of loans to customers by the Bank. This analysis consists of examining the counterparty's ability to meet its contractual obligations to the Bank, which involves analyzing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

The risk analysis is conducted with a pre-established frequency or every time a new customer or transaction arises, depending on the segment involved. Additionally, the credit rating is examined and reviewed whenever a warning system is triggered or an event affecting the counterparty/transaction occurs.

c. Transaction decision-making

The purpose of the transaction decision-making process is to analyze transactions and adopt resolutions thereon, taking into account the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

Since 1993 the Bank has been using, among others, the RORAC (return on risk-adjusted capital) methodology for the risk analysis and pricing in the decision-making process on transactions and deals.

d. Risk monitoring and control

In addition to the tasks performed by the Internal Audit Division, the Risk Unit has a specific risk monitoring function for adequate credit quality control, which consists of local and global teams to which specific resources and persons in charge have been assigned.

This monitoring function is based on an ongoing process of permanent observation to enable early detection of any incidents that might arise in the evolution of the risk, the transactions, the customers and their environment, and the adoption of mitigating actions. The risk monitoring function is specialized by customer segment.

For this purpose a system called "special surveillance firms" (FEVE, using the Spanish acronym) has been designed that distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a company in the FEVE system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for this company, to place a person in charge and to set the policy implementation period. Customers classified as FEVE are revised at least every six months, or every three months for those classified in the most severe categories. A company is classified as FEVE as a result of the monitoring process itself, a review performed by Internal Audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to standardized customers, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts contained in the credit management programs.

Risk control function

Supplementing the management process, the risk control function obtains a global view of the Bank's loan portfolio, through the various phases of the risk cycle, with a level of detail sufficient to permit the assessment of the current situation of the exposure and any changes therein.

Any changes in the Bank's risk exposure are controlled on an ongoing and systematic basis against budgets, limits and benchmarks, and the impacts of these changes in certain future situations, both of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures that place the profile and amount of the loan portfolio within the parameters set by the Bank.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product and process, thus facilitating the detection of specific areas warranting action and for which decisions have to be taken.

II.6 Credit risk from other standpoints

Certain areas and/or specific views of credit risk deserve specialist attention, complementary to global risk management.

a. Concentration risk

Concentration risk is an essential factor in the area of credit risk management. The Bank constantly monitors the degree of concentration of its credit risk portfolios, by geographical area/country, economic sector, product and customer group.

The risk committee establishes the risk policies and reviews the exposure limits required to ensure adequate management of credit risk portfolio concentration.

From the sectorial standpoint, the distribution of the corporate portfolio is adequately diversified.

The Bank's Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitization transactions, in order to optimize the risk/return ratio of the total portfolio.

b. Credit risk from financial market operations

This heading includes the credit risk arising in treasury operations with customers, mainly credit institutions. These operations are performed both via money market financing products with different financial institutions and via derivative instruments arranged for the purpose of serving our customers.

Risk control is performed using an integrated, real-time system that enables the Bank to know at any time the unused exposure limit with respect to any counterparty, any product and maturity and at any Bank unit.

Credit risk is measured at its current market value and its potential value (exposure value considering the future variation in the underlying market factors). Therefore, the credit risk equivalent (CRE) is defined as the sum of net replacement value plus the maximum potential value of the contracts in the future.

c. Environmental risk

The environmental risk analysis of credit transactions is one of the main features of the Strategic Corporate Social Responsibility Plan. The analysis is founded on two major cornerstones:

- The Equator Principles: an initiative of the International Finance Corporation of the World Bank. These principles constitute an international standard for the analysis of the social and environmental implications of project finance transactions. Banco Santander adheres to these principles and its management incorporates the analysis and assessment of the social and environmental risks of projects financed in developing countries.
- The VIDA tool: implemented since 2004, the main aim of this tool is to assess the environmental risk of both current and potential customer companies, using a system that classifies each of the companies into one of seven categories, depending on the degree of environmental risk incurred.

It is currently under implementation the environmental and social risk management system for Santander's operations in Brazil that had previously been in place at Banco Real. Under this system, borrowers are screened for environmental and social problems, such as contaminated land, deforestation, slave labor and other major environmental and social issues for which there are potential penalties. In 2008, Banco Real screened approximately 5,000 corporate clients for these types of risks. A specialized team of biologists and geologists monitors the customers' environmental practices, and a team of financial analysts studies the likelihood of damages that unfavorable environmental conditions may cause to our customers' financial condition and collateral, among other effects. This monitoring activity also aims to preserve our reputation in the market.

The goal is to expand these screening practices to include Santander clients in the middle and large corporation segments. As part of this process, we will train our credit and commercial areas.

III. MARKET RISK

III.1 Activities subject to market risk

The measurement, control and monitoring of the market risk area comprises all operations in which net worth risk is assumed. This risk arises from changes in the risk factors — interest rate, exchange rate, equities, commodity prices and the volatility thereof — and from the solvency and liquidity risk of the various products and markets in which the Bank operates.

The activities are segmented by risk type as follows:

1. *Trading:* this item includes financial services for customers, trading operations and positioning mainly in fixed-income, equity and foreign currency products.

2. *Balance sheet management:* interest rate risk and liquidity risk arising as a result of the maturity and repricing gaps of all assets and liabilities. This item also includes the active management of the credit risk inherent in the Bank's balance sheet.

3. *Structural risks:*

   a. *Structural foreign currency risk/hedges of results:* foreign currency risk arising from the currency in which investments in consolidable and non-consolidable companies are made (***structural exchange rate***). This item also includes the positions taken to hedge the foreign currency risk on future results generated in currencies other than the Real (***hedges of results***).

   b. *Structural equities risk:* this item includes equity investments in non-consolidated financial and non-financial companies that give rise to equities risk.

The Treasury area is responsible for managing the positions taken in the trading activity.

The Financial Management area is responsible for managing the balance sheet management risk and structural risks centrally through the application of uniform methodologies adapted to the situation of each market in which the Bank operates. Thus, in the convertible currencies area, Financial Management directly manages the Parent's risks and coordinates the management of the other units operating in these currencies. Decisions affecting the management of these risks are taken through the ALCO committees in the respective countries and, ultimately, by the Parent's markets committee.

The aim pursued by Financial Management is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Bank's economic value, whilst maintaining adequate liquidity and solvency levels.

Each of these activities is measured and analyzed using different tools in order to reflect their risk profiles as accurately as possible.

III.2 Methodologies

Trading

The Bank calculates trading market risk capital requirement using a standard model provided by Brazilian Central Bank.

The standard methodology applied to trading activities by the Santander Bank in 2008 was value at risk **(VaR)**, which measures the maximum expected loss with a given confidence level and time horizon. This methodology was based on a standard historical simulation with a 99% confidence level and a one-day time horizon. Statistical adjustments were made to enable the swift and efficient incorporation of the most recent events that condition the level of risk assumed. Specifically, the Bank uses a time window of two years or 520 daily data obtained retrospectively from the reference date of the VaR calculation. Two figures are calculated each day, one by applying an exponential decline factor which gives a lesser weighting to more distant observations in time, and another with uniform weightings for all observations. The VaR reported is the higher of these two figures.

VaR is not the only measure. It is used because it is easy to calculate and because it provides a good reference of the level of risk incurred by the Bank. However, other measures are simultaneously being implemented to enable the Bank to exercise greater risk control in all the markets in which it operates.

One of these measures is scenario analysis, which consists of defining behavior scenarios for various financial variables and determining the impact on results of applying them to the Bank's activities. These scenarios can replicate past events (such as crises) or, conversely, determine plausible scenarios that are unrelated to past events. A minimum of three types of scenarios are defined (plausible, severe and extreme) which, together with VaR, make it possible to obtain a much more complete spectrum of the risk profile.

The positions are monitored daily through an exhaustive control of changes in the portfolios, the aim being to detect possible incidents and correct them immediately. The daily preparation of an income statement is an excellent risk indicator, insofar as it allows us to observe and detect the impact of changes in financial variables on the portfolios.

Lastly, due to their atypical nature, derivatives and credit management activities are controlled by assessing specific measures on a daily basis. In the case of derivatives, these measures are sensitivities to fluctuations in the price of the underlying (delta and gamma), in volatility (vega) and in time (theta). For credit management activities, the measures controlled include sensitivity to spread, jump-to-default and position concentrations by rating level.

With respect to the credit risk inherent in the trading portfolios, and in keeping with the recommendations made by the Basel Committee of Banking Supervision, an additional measure has been introduced, the Incremental Default Risk (IDR), in order to cover the default risk which is not properly captured in the VaR, through the variation of the related credit spreads. The instruments affected are basically fixed-income bonds, issued by the public and the private sector, derivatives on bonds (forwards, options, etc.) and credit derivatives (credit default swaps, asset-backed securities, etc.). The method used to calculate the IDR, which in essence is similar to that applied to the credit risk on non-trading positions, is based on direct measurements on the loss distribution tails at the appropriate percentile (99 9%). The saddle point method, which provides estimates of total risk and the contributions of each counterparty thereto, is used. At the same time, the calculations are supplemented and calibrated using Monte Carlo simulations.

Balance-sheet management

Interest rate risk

The Bank analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

On the basis of the balance-sheet interest rate position, and considering the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Bank. These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products.

The measures used by the Bank to control interest rate risk in these activities are the interest rate gap, the sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital, value at risk (VaR) and scenario analysis.

a) Interest rate gap of assets and liabilities

The interest rate gap analysis focuses on the mismatches between the interest reset periods of on-balance-sheet assets and liabilities and of off-balance-sheet items. This analysis facilitates a basic snapshot of the balance sheet structure and enables concentrations of interest rate risk in the various maturities to be detected. Additionally, it is a useful tool for estimating the possible impact of potential changes in interest rates on the entity's net interest margin and market value of equity.

The flows of all the on- and off-balance-sheet aggregates must be broken down and placed at the point of repricing or maturity. The duration and sensitivity of aggregates that do not have a contractual maturity date are analyzed and estimated using an internal model.

b) Net interest margin (NIM) sensitivity

The sensitivity of the net interest margin measures the change in the expected accruals for a specific period (12 months) given a shift in the interest rate curve.

The sensitivity of the net interest margin is calculated by simulating the margin both for a scenario of changes in the interest rate curve and for the current scenario, the sensitivity being the difference between the two margins so calculated.

c) Market value of equity (MVE) sensitivity

The sensitivity of the market value of equity is a complementary measure to the sensitivity of the net interest margin.

This sensitivity measures the interest rate risk implicit in the market value of equity based on the effect of changes in interest rates on the present values of financial assets and liabilities.

d) Value at risk (VaR)

The value at risk for balance sheet aggregates and investment portfolios is calculated by applying the same standard as that used for trading: historical simulation with a confidence interval of 99% and a one-day time horizon. Statistical adjustments were made to enable the swift and efficient incorporation of the most recent events that condition the level of risk assumed.

Liquidity risk

Liquidity risk is associated with the Bank's ability to finance its commitments at reasonable market prices and to carry out its business plans with stable sources of funding. The Bank permanently monitors maximum gap profiles.

The measures used to control liquidity risk in balance sheet management are the liquidity gap, liquidity ratios, stress scenarios and contingency plans.

a) Liquidity gap

The liquidity gap determines the inflow and outflow of funds for assets, liabilities and off-balance sheet accounts at a given time horizon, making it possible to analyze mismatches between the Bank's expected inflow and outflow of funds.

A liquidity gap may be prepared and analyzed as divided into local currency liquidity gap and foreign currency liquidity gap, under which cash and cash equivalents, inflows and outflows and strategies are segregated into local and foreign currency, respectively.

The Bank prepares three types of Liquidity Gap analyses:

1. *Contractual liquidity gap:* the Contractual Liquidity Gap determines the contractual maturity flows of the Group's major products on a consolidated basis, and any existing mismatches. It also informs the available liquidity in one day and the consumption of or increase in liquidity in the period.

2. *Operational liquidity gap:* daily cash monitoring and management considering the market situation, maturities and renewal of assets and liabilities, liquidity requirement and specific events.

3. *Projected liquidity gap:* based on the Contractual Liquidity Gap, new maturity flows are projected considering the Group's budget plan.

b) Liquidity ratios

In addition to the Liquidity Gap analysis, a Structure Liquidity model is also prepared to assess the structure profile of the sources and uses of the Group's funds, which includes Liquidity Ratio studies:

The key Liquidity Ratios analyzed are as follows:

- Deposits/Lending operations — measures the Institution's ability to finance lending operations with more stable and lower-cost funding.
- Stable Liabilities/Permanent Assets — measures the ration between Capital + Other Stable Liabilities and Investments + Other Permanent Assets.
- Market Funding/Total Assets — measures the percentage of the Group's assets financed with less stable and higher-cost funding.
- Short-term market funding/Market Funding — measures the percentage of probable liquidity loss (less than 90 days) on total less stable funding.
- Net Assets/Short-term Market Funding — measures the commitment ratio of highly-liquid assets and probable liquidity loss(less than 90 days).

c) Scenario analysis/Contingency plan

Liquidity management requires an analysis of financial scenarios where possible liquidity issues are evaluated. For this, crisis scenarios are built and then studied. The model used for this analysis is the Liquidity Stress Test.

The Liquidity Stress Test assesses the institution's financial structure and ability to resist and respond to the most extreme situations.

The purpose of the Liquidity Stress Test is to simulate adverse market conditions, making it possible assess impacts on the institution's liquidity and payment ability, so as to take preventive actions or avoid positions that may adversely affect liquidity in worst-case scenarios.

Scenarios are determined based on an analysis of the market commitment during prior crises and future estimates. Four scenarios with different intensity levels are prepared.

Based on an analysis of the stress models, the Minimum Liquidity concept was determined, which is the minimum liquidity required to support the liquidity losses of up to 90% for 90 days in all crisis scenarios simulated.

Based on the results obtained through the Liquidity Stress Test, the Bank prepares its Liquidity Contingency Plan, which is a formal combination of preventive and corrective actions to be taken in liquidity crisis scenarios.

The Liquidity Contingency Plan is primarily intended to the following:

- Crisis identification — the preparation of a Liquidity Contingency Plan requires the determination in advance of a measurable parameter determining the institution's liquidity condition and structure. This parameter is the Liquidity Minimum Limit determined by the Liquidity Stress Test. When this limit is exceeded, there is a liquidity crisis environment, and thus, the Contingency Plan is used.
- Internal Communication — after the crisis is identified, it is necessary to establish clear communication channels to mitigate the problems raised. People held accountable for taking these contingency actions should be notified of the extent of the contingency and measures to be taken.
- Corrective actions — Actions intended to actually generate the funds required to solve or mitigate the effects of crisis, as follows:
  - Assess the type and severity of the crisis;
  - Identify the most impacted segment;
  - Put in practice the measures planned to generate funds, considering the required amount and cost of the additional resource, either financial or image cost.

ALCO reviews and approves stress models, Minimum Liquidity and Contingency Plan on a semi-annual basis.

If adverse market conditions occur, ALCO may review and approve new models, Minimum Liquidity and Contingency Plan on a need basis.

Structural foreign currency risk/Hedges of results/Structural equities risk

These activities are monitored by measuring positions, VaR and results.

Complementary measures

Calibration and test measures

Back-testing consists of performing a comparative analysis between VaR estimates and daily "clean" results (profit or loss on the portfolios at the end of the preceding day valued at following-day prices). The aim of these tests is to verify and provide a measure of the accuracy of the models used to calculate VaR.

Back-testing analyses performed at the Santander Bank comply, at the very least, with the BIS recommendations regarding the verification of the internal systems used to measure and manage financial risks. Additionally, the Santander Bank also conducts hypothesis tests: excess tests, normality tests, Spearman's rank correlation, average excess measures, etc.

The assessment models are regularly calibrated and tested by a specialized unit.

III.3 Control system

Limit setting

The limit setting process is performed together with the budgeting activity and is the tool used to establish the assets and liabilities available to each business activity. Limit setting is a dynamic process that responds to the level of risk considered acceptable by senior management.

Objectives of the limits structure

The limits structure requires a process to be performed that pursues, inter alia, the following objectives:

1. To identify and delimit, in an efficient and comprehensive manner, the main types of financial risk incurred, so that they are consistent with business management and the defined strategy.

2. To quantify and communicate to the business areas the risk levels and profile deemed acceptable by senior management so as to avoid undesired risks.

3. To give flexibility to the business areas for the efficient and timely assumption of financial risks, depending on market changes, and for the implementation of the business strategies, provided that the acceptable levels of risk are not exceeded.

4. To allow business makers to assume risks which, although prudent, are sufficient to obtain the budgeted results.

5. To delimit the range of products and underlyings with which each Treasury unit can operate, taking into account features such as assessment model and systems, liquidity of the instruments involved, etc.

III.4 Risks and results in 2008

Trading

The average VaR of the Bank's trading portfolio in 2008, at R$62.7 million[1] and R$34.08 million for 2007. The VaR figures regarding Banco Real as of August 08 and August 07 was R$5.9 million and R$4.5 million respectively. The dynamic management of this profile enables the Bank to change its strategy in order to capitalize on the opportunities offered by an environment of uncertainty.

A. Balance sheet management[2]

A1. Interest rate risk

Convertible currencies

At 2008 year-end, the sensitivity of the net interest margin at one year to parallel increases of 100 basis points applied to Santander Brazil (Santander plus Real) portfolios was concentrated on the BRL interest rate curve was negative by R$65.6 million, and dollar interest rate curve was positive by R$8.6 million.

[1] Includes Banco Real, it's figure was added to Santander Bank's VaR disregarding the diversification effect

[2] Includes the balance sheet total, except for the financial assets and liabilities held for trading

(Thousands of Brazilian Reais)

Also at 2008 year-end, the sensitivity market value of equity to parallel increases of 100 basis points applied to the Bank in the BRL interest rate curve was negative by R$708.9 million. With respect to the dollar curve, the sensitivity was negative by R$27.46 million.

2008 was characterized by a conservative stance with respect to exposure to interest rates, reflecting the uncertainty prevailing in the financial markets, which was particularly accentuated in the second half of the year by inclusion the Bank Real.

Quantitative risk analysis

The interest rate risk in balance sheet management portfolios, measured in terms of sensitivity of the net interest margin (NIM) at one year to a parallel increase of 100 b.p. in the interest rate curve, of the Bank Santander remained at low levels throughout 2008, fluctuating within a narrow band and reaching a high of R$53.22 million in May. Measured in terms of value sensitivity, it fluctuated between R$280.5 million and R$376.7 million, showing a very stable trend throughout the year, except for the last quarter, when the increase observed was due mainly to the inclusion of Banco Real.

At 2008 year-end, the risk consumption, measured in terms of an increase in 100 b.p. sensitivity of the MVE with Santander and Bank Real was negative R$709.6 million (December 2007 was negative R$294.7 million), while the net interest margin risk at one year, measured in terms of an increase in 100 b.p. sensitivity of this margin, was negative R$66 million (December 2007 was negative R$39.6 million).

	December 2008
Net interest margin sensitivity	(66,20)
Market value of equity sensitivity	(709,44)
Balance sheet management risk(*)	(352,80)

(*) measured in terms of VaR

A2. Structural liquidity management

Structural liquidity management seeks to finance the Bank's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

The main features of the **structural liquidity management** in 2008 were as follows:

- Ample structural liquidity position. Since Santander is basically a commercial bank, customer deposits constitute the main source of liquidity in its financing structure. These deposits, combined with capital and other similar instruments, enable the Bank to cover most of its liquidity requirements and, as a result, the financing raised in wholesale markets is moderate with respect to the size of its balance sheet.

  In Brazil, the legal reserve requirement takes a considerable part of the funding.

- Obtainment of liquidity through diversification in instruments. Additionally, subordinated and senior debts have an overall long maturity, not requiring liquidity to currently cover such exposures.

- The local balance sheet should be self-funded. Given the current market environment, this principle has been extended to individual business lines.

- Based on stress test results, a minimum liquidity buffer is maintained.

- Santander reliance in international funding is not considerable (5.35% of the total balance sheet as of March 31, 2009).
- The aim is that hard currency related activities be funded with third parties hard currency funding.
- Though, given that potential disruptions in this market, Santander Brazil has mechanisms to use the local liquidity in order to support hard currency activities.
- High capacity to obtain on-balance-sheet liquidity. Government bond positions are held for liquidity management purposes.
- The Bank performs control and management functions, which involves planning its funding requirements, structuring the sources of financing to achieve optimum diversification in terms of maturities and instruments, and defining contingency plans.

In practice, the liquidity management performed by the Bank consists of the following:

- Each year, a liquidity plan is prepared on the basis of the financing needs arising from the budgets of each business. Based on these liquidity requirements and taking into account certain prudential limits on the obtainment of short-term market financing, the Bank establishes an issue and securitization plan for the year.
- Throughout the year the Bank periodically monitors the actual changes in financing requirements and updates this plan accordingly.
- Control and analysis of liquidity risk. The primary objective is to guarantee that the Bank has sufficient liquidity to meet its short- and long-term financing requirements in normal market situations. To this end, the Bank employs certain balance-sheet control measures, such as the liquidity gap and liquidity ratios.

Simultaneously, various scenario (or stress-scenario) analyses are conducted which consider the additional requirements that could arise if certain extreme but plausible events occur. The aim pursued is to cover a broad spectrum of situations that are more or less likely to affect the Bank, thus enabling it to prepare the related contingency plans.

IV. OPERATIONAL AND TECHNOLOGY RISKS AND BUSINESS CONTINUITY MANAGEMENT

Adopt, maintain, and disseminate the culture, policies and infrastructure necessary for the appropriate management and control of Operational and Technology risks is one of the competitive drivers of Santander Brazil, always focusing on the effectiveness of the Internal Control system and the prevention, mitigation and reduction of events and losses from Operational and Technology risks.

This concern is reflected in the Mission Statement guiding the Operational and Technology Risk Superintendency:

“To be the area responsible for implementing and disseminating the culture, policies and infrastructure necessary to ensure the involvement and commitment of all employees for the appropriate management and control of Operational and Technology Risks and Business Continuity for the effectiveness of the Internal Control System, contributing to the attainment of the objectives of Santander Brazil and its stakeholders.”

The processes developed and adopted are intended to position and maintain Santander Brazil among the financial institutions recognized as the entities with the best practices for the management of Operational Risks and their operations, thus contributing to attaining the strategic objectives and continuously improving the entity’s reputation and its soundness and reliability in the local and international markets.

Besides being a competitive driver, the elected management and control model is also a strategic factor for the Bank, as in addition to ensuring its daily use by managers, it also ensures alignment with guidance from the Santander Spain Group, the New Basel Accord — BIS II, Brazilian Central Bank, Brazilian Securities and Exchange Commission and Brazilian Private Insurance Authority requirements, and the Sarbanes-Oxley Act provisions.

Thus, Santander Brazil, aligned with the rulings of these supervisory and regulatory bodies, considers as operational risk events those events arising from weaknesses or deficiencies in internal processes and systems or caused by employees, or those arising from exposure to outside events, which may or may not cause financial losses, affect business continuity, or have an adverse effect on stakeholders.

To meet this challenge, Santander Brazil has the following organizational structure, which is part of Bank's Corporate Governance structure:

- *Executive Operational Risks Committee*

  An independent committee, with decision-making autonomy. This committee is responsible for setting the strategies and guidelines on operational, technology and business continuity risk control and management of Santander Brazil;

- *Operational Risk Vice President*

  Heads a department consisting of the following superintendencies: Information Security, Special Events, Intelligence and Fraud Prevention, and Operational, Technology and Business Continuity Risks. The Operational Risk Vice President's responsibilities include the commitment to disseminate the culture, define the methodologies, standards, policies, tools, training and procedures applicable to and required for the effective and efficient management and control of operational risks;

- *Information Security Superintendency (SSI)*

  Responsible for defining and implementing the actions necessary to protect the Bank's information, aligned with Information Security policies, standards and procedures, statutes, regulations and best global practices;

- *Special Events Superintendency (SOE)*

  Responsible for acting in the prevention, detection and investigation of internal and external fraud, misconduct and rule infraction events, guide manages on procedures, create specific procedures to identify atypical events and recommend solutions and propose improvements in internal controls, as well as interacting with other areas in the preparation of preventive warnings to the branch network and central office areas, alerting on focused fraud issues to avoid losses for the Bank;

- *Intelligence and Fraud Prevention Superintendency (NIPF)*

  Responsible for preventing, analyzing and controlling fraud in electronic channels (Internet, Call Center and ATMs), reducing losses and increasing actual and client and the general public perceived safety in these channels and the through monitoring and responsive action, trend and new attack identification, and the design and implementation of an anti-fraud strategy in these channels, by proposing and facilitating the development of fraud prevention and suppression actions;

- *Operational and Technology Risks Superintendency (SROT)*

  Responsible for implementing the best practices in Operational and Technology risk management and also in Business Continuity management, assisting managers in the compliance of the strategic objectives, the decision-making process of the Santander Brazil and their daily activities, in the adjustment to and compliance with existing requirements, and preserving reputation, soundness and reliability of the Bank;

  The Operational and Technology risk model combines two approaches: Centralized and Decentralized.

- *Centralized approach*

  This approach is one of pillars of the model and defines that "the control" of the Operational and Technology risks is the responsibility of the SROT, encompassing the activities intended to identify, assess, capture, monitor, control, analyze, consolidate, add, mitigate and model the potential material risks and the risk events and losses from operational and technology risks, covering all the areas, processes and nonfinancial entities part of Santander Brazil by disseminating the operational and technology risk culture, policies, methodologies and management tools.

- *Decentralized approach*

  This approach is the other pillar of the model and defines that "the management" of the Operational and Technology risks is the responsibility of the area and process managers, with the assistance of the Operational Risks Representatives of the SROT, who use the policies, methodologies and tools defined by the SROT. The area and process managers must, therefore, ensure the identification of and report to the SROT timely information on risk events so that a corrective and preventive action can be taken, registered in the operational risk events and losses history database, so that the situation can be, in due time, shown to Santander Brazil's Top Management.

SROT Activities

Santander Brazil works for the convergence and consistent integration of best practices in the control and management of Operational risks. To do so and as complement of the approaches above, the Qualitative and Quantitative focuses and technology risk and business continuity management and control are adopted.

Focuses: Qualitative and Quantitative

The qualitative focus involves the identification and prevention of potential operational risks and defines the risk profile of each area and process. It is based on the strengthening of the internal control environment. It is responsible for providing the methodologies, tools and systems, such as the risk and internal control matrix, the self-assessment quizzes, and the qualitative operational key risk indicators (KRIs), to assist managers in identifying and assessing risks and controls to define the risk profile of each organization area, process, product and or service, and coordinating, together with the managers in charge, implementing the action plans established for improving the internal control system and the risk profile.

The main related methodological tools are as follows:

- *Operational and Technology Risk Matrix*

  Customized tool, used to document and create the database of potential risks, procedures and controls activities identified in the activities, products and products. The workshop and self-assessment methodologies are used together with the application of the self-assessment quizzes on operational risk and internal control.

- *Summarized Operational and Technology Risk Matrix for New Products*

  Tool developed to document potential risks and existing internal controls before new banking products and services are launched.

- *Quality Assurance Activities*

  Permit assessing, validating and verifying the effectiveness of internal control existing and documented in the Operational and Technology Risk Matrices, and verifying compliance with the decision of the New Products Committee.

- *Self-assessment Quizzes (Generic and Specific)*

  Tool adopted to identify managers' perception of the environment where they work from an operational risk standpoint, allowing the creation of a standardized criticality table. It allows determining the internal control level of coverage and the priority treatment of critical items, and interacts with the Internal Database, helping to validate and conduct backtests.

- *Monitoring of the Action Plans for Material Weakness and Events*

  Institutional process developed and deployed by the SROT, which allows, through a timely capture of materialized material weaknesses and events, identifying the correct and preventive actions that will minimize the impacts on stakeholders and also maintain the updating cycle of the Operational and Technology Risk Matrices.

- *Monitoring of Regulatory Agencies*

  Process developed by the SROT to identify and treat the registrations and requests made by regulatory agencies for a proper and timely compliance with statutory deadlines and requirements.

- *Monitoring of Existing Financial Restrictions on Santander Brazil*

  Process developed by the SROT to identify any existing restriction against the Bank and its timely treatment by identifying the causes, on which the applicable actions plans will be based.

The quantitative focus is related to the qualitative focus, helping to detect, correct and prevent operational risks, as well as providing resources for analysis and decision-making purposes, whether strategic or operational. It is also responsible for implementing policies, standards, procedures and tools to maintain the risk event capture flow and operational key risk indicators (KRIs) for the entire Santander Brazil, consolidating them in a single database to allow the analyses and aggregation of risks, identifying the main causes for the operational risks and coordinating, together with the managers responsible for effectively implementing action plans to mitigate and reduce risks and operating losses.

The use of both the qualitative focus and the timely capture of the operational risk events and losses due to operational risks, as well as the identification of the causes and their corresponding impacts, allows adopting backtesting techniques during the follow-up of the implementation of corrective and preventive action plans of events captured.

The main tools used are:

- *Internal History of Loss Events Due to Operational Risks*

  This database contributes to decision-making on the priorities in the action plans to prevent and mitigate operational risks and losses from operational risks. One of its functions will permit sustaining the advanced measurement approach to calculate the Economic and Regulatory Capital requirement by building the frequency and severity distributions of losses from operational risks and the consequent calculation of Operational VaR.

- *Preparation and Follow-up of Losses from Operational Risks Forecasts and Limits*

  Process that ensures the commitment of the main areas to the losses from operational risks forecasts and limits for each financial year, with the periodic follow-up and analysis of the observed fluctuations, anticipating SROT's recommended action plans to correct deviations, when necessary.

- *Identification and Follow-up of Action Plans to Mitigate and Correct Operational Risk Events*

  Control and follow-up action, performed by the SROT, in implementing the action plans identified in material operational risk events.

- *Database of Operational Risk Events Captured from External Public Sources*

  Tool used in the culture dissemination process to include external events captured during the scenario analysis, assessment of event probability (frequency and severity) to supplement the economic and regulatory capital measurement modeling.

- *Analysis and Treatment of Material Weaknesses and Events*

  Institutional process developed and implemented by the SROT for the timely capture of materialized material weaknesses and events, aimed at corrective decision-making and the appropriate preventive treatment to minimize impacts on stakeholders.

- *Operational Key Risk Indicators*

  Toolbox developed by the SROT for the Bank, which allows identifying trends and deviations on a relative basis, subsidiary to absolute bases, considering internal and external volumetry variables, and thus build a set of operational key risk indicators customized to Santander Brazil needs.

The merger of these focuses fosters synergy and optimization, through convergence in operational and technology risk and business continuity management, with a direct impact on the measurement of the economic and regulatory capital.

Technology Risk Management and Control

The area is responsible for assisting managers in identifying and assessing the technology risks and related internal control, specific to Technology-related processes and activities. It is incumbent upon this area to define the methodologies, tools and systems for the corporate management of technology risks and coordinate, with individuals in charge, the actions required to prevent and mitigate technology risk events.

Business Continuity Risk Management and Control

The area responsible for coordinating the maintenance and updating of the Business Continuity Management process and strategic group-wide dissemination of such process, promoting the identification of process-related risks and impacts using tools such as risk matrix and internal control, self-assessment quizzes and the operational key risk indicators (KRIs).

The area also coordinates the preparation of Business Continuity Plans (BCPs) of the different areas of the Organization, testing, activation of the BCPs together with the managers, when necessary, and training of the Crisis Response Group (CRG) and the other areas' focal points of for the local management of their plans, and proposes business continuity strategies for the Santander Brazil's Plan.

Scope and Sustainability

The scope of the Operational and Technology Risks management and control, and the business continuity management of Santander Brazil goes beyond the simple identification of regulatory capital allocation and calculation, as it works together with the Bank's strategy, providing the tools for the sustainable growth of the Bank and the economic and social environment where the Bank operates.

By working in an ethical and professional manner, the control of operational and technology risks results in major achievements for the Bank, ensuring its continuity and development, including:

- Compliance with existing regulations: Brazilian Central Bank (BACEN), Brazilian Securities and Exchange Commission (CVM), Private Insurance Authority (SUSEP), BIS-II, and SOX;
- Compliance with and certification under the Sarbanes-Oxley Act;
- Improvement of operational efficiency and activity and process productivity, and optimization of Economic and Regulatory Capital allocation;
- Reputation strengthening and enhancement of the Risk to Return ratio for stakeholders;
- Timely compliance with requirements from regulators;
- Maintenance and preservation of the quality and reliability of products, services offered, and related parties;
- Timely corrections of vulnerabilities identified in processes;
- Quality assurance assessments for newly developed products;
- Follow-up, through a monitoring board panel, of the timely compliance with regulators' requirements;
- Cultural Change and dissemination of accountability;
- Compliance with Brazilian Central Bank and Bank of Spain requirements.

This sound and effective structure permits the Bank to be ready for continuous enhancement of existing methodologies and the deepening of the dissemination of an accountability culture regarding risks management and potential loss events.

A Distinguishing Factor

The Operational Risk Vice President maintains its professionals up-to-date on and trained for the changes identified in the environment where they operate, and also provides training for the other Bank professionals through courses on the intranet and specific reports.

The SROT is integrated with the other Bank areas and elects representatives for the most import divisions, including Technology.

Its main actions include:

- Annual Operational and Technology Risk Prevention and Control Week;
- Create and maintain the New Employee Integration Program — "One Voice", consisting of lectures and instructor classes on each one's responsibility and how people must act in operational risk management;
- Training on the procedures necessary to assess the Internal Control Environment and the importance of and the requirements for complying with the Sarbanes-Oxley Act;
- Create, disclose and maintain Instruction Manuals, allowing the group-wide dissemination to ensure everyone's compliance;
- Coordinate the annual losses from operational risks forecast preparation process and mitigation an accountability action plans;
- Develop Key Risk Indicators to extract absolute and relative analyses based on volumetry and benchmarks;
- Issue summaries and highlights of significant cases involving Operational Risks, captured from external public sources that strengthen the importance of the operational risk control and management process.

This set of actions leverages the consistent attainment by the Santander Brazil of its strategic and operational objectives, in a controlled and known environment as regards exposure to assumed risks, maintaining a risk profile considered low.

National Monetary Council (CMN) Resolution 3380/06 — BACEN

The Operational Risk Vice President has standards, methodologies and an internal model, based on best market practices to identify, assess, monitor, manage and control operational risks, thus anticipating the provisions of CMN Resolution 3380 of June 29, 2006 — BACEN, in compliance with this Resolution's requirements.

The Top Management and the Head Office are committed to this issue and assess, approve, recognize, and support any necessary structure, policies, methodologies, tools, standards and procedures to promote the appropriate group-wide management and control of operational risks.

The main results obtained, including the creation and roll-out of the Executive Operational Risks Committee, are already available in our 2006 and 2007 annual and social reports, and the consolidated financial statements for the year ended December 31, 2008.

Regulatory Capital Portion — Santander Brazil

The Santander Brazil, consisting of the banks Real and Santander, adopts, from December 31, 2008, the Alternative Standardized Approach to calculate the Operational Risk Capital Charge — ***POPR.***

Regulatory Capital charge structure by Business Line of the Santander Brazil

	Linha de Negócio — Grupo	Consumo
LN1	Corporate Finance	**4%**
LN2	Negociação e Vendas	**40%**
LN3	Banco de Varejo	**16%**
LN4	Banco Comercial	**22%**
LN5	Pagamento e Liquidação	**6%**
LN6	Serviço de Agência	**4%**
LN7	Administração de Ativos	**8%**
LN8	Corretagem e Varejo	**1%**

Forward-Looking Outlook

With the structure, methodologies and model developed and adopted, a strengthening of Santander Brazil is expected, both locally and international, and the consolidation of this strategy so that the Bank is recognized as a cutting-edge organization in terms of risk operational, technology risks and business continuity management and control process, proven by the implementation of an efficient and effective internal control and risk exposure environment.

V. REPUTATIONAL RISK

1. Reputational Risk

Santander (Brazil) believes that the fundamental precept of its long-term business sustainability and shareholder value creation requires proper conduct of the business activities in accordance with Santander Corporate Values.

Compliance risk has been defined as the risk of legal or regulatory sanctions, material financial loss, or reputational harm Santander (Brazil) may suffer as a result of its failure to comply with relevant laws, regulations, principles and rules, standards and codes of conduct applicable to its activities, in letter and in spirit.

Santander (Brazil) defines reputational risk as a risk arising from negative public opinion, irrespective of whether this opinion is based on facts or merely on public perception.

Such risk can result from either:

- Actions and behaviour of the organisation or its staff like products sold, services provided or interactions with stakeholders, which constitutes direct risk.
- Actions and behaviour of external parties, which constitutes indirect risk.

2. Overview

Santander (Brazil) is therefore committed to contribute positively to Sustainable Development, ensuring long-term business success while contributing towards economic and social development, a healthy environment and a stable society.

Effective risk management is a prerequisite for the continued success of any bank.

A key component of risk management is to ensure that the bank's reputation is preserved and enhanced through selecting to engage responsibly in the right business, with the right clients.

A sound reputation represents a bank's social license to operate, which, whilst not a formal banking license, is a license given by our stakeholders and upon which long-term growth and ultimately the sustainability of our business depends.

In recognition of this, we have developed several reputational risk policies to identify, assess and manage the non-financial issues present within our business engagements. These policies and standards are referred to as Reputational Risk Management policies.

This pursuit of excellence requires that Santander (Brazil) is accountable for its actions, is open about them and that Santander's Board Members and employees are therefore ultimately responsible for the bank's reputation.

The Compliance Department is responsible for assisting the bank to identify, measure and mitigate a significant part of the compliance risk but not in its entirety. Other key stakeholders in the process include the Managing Board, Senior Management, Finance Department, Human Resources, Risk Department and Legal.

The main activities of compliance functions are concentrated on specific elements of financial services legislation and its associated rules, regulations, codes of conduct and market standards. These are predominately "conduct of business" requirements and do not include capital management issues (i.e. capital adequacy, accounting standards and Sarbanes-Oxley) which are the responsibility of Finance Department, Operational Risk and Audit.

3. *High-level principles*

The two high-level principles of Compliance Department within Santander (Brazil) are:

- The compliance function will be independent of, and act in partnership with the business
- The compliance function will take a risk based approach to compliance risk

4. *The high-level principles are supported by principles of good compliance:*

- The compliance function will be effective and efficient in its use of Santander's resources
- The compliance function will ensure appropriate measures of risk control based on understanding of Santander's strategy and business.
- The compliance function will endeavour, where it can, to take a proactive approach to compliance risk, understanding that monitoring, education and communication will often achieve more than reactive remedies

5. *Function and tasks of Compliance*

a. To identify, measure and assess compliance risks

- To proactively identify, measure and assess the impact of compliance risk generated internally: by our businesses, structures, products and employees; and externally: by actual or proposed changes to laws and rules as well as to the regulatory environment and by assessing changes laws, rules and in interpretation by regulators of existing regulations and standards.
- To participate in the industry dialogue concerning emerging regulations and provide Santander's views.

- To benchmark against competitors/peer group.
- To advise the bank on the appropriate authorisations and licenses for its businesses.

b. To assist in managing and mitigating Compliance Risk

- To develop appropriate and proportionate compliance specific written policies, standards and procedures to facilitate compliance with relevant external laws and regulations which reflect the bank's compliance risk appetite where necessary.
- To review the policies, standards and procedures of the businesses and other support functions to ensure they are consistent with our compliance obligations.
- To provide expert compliance advice and input on specific businesses, issues or transactions.

c. To educate and train our employees on compliance matters

- To provide a comprehensive training programme on compliance-related matters to compliance staff and our business partners
- To measure the effectiveness of the training programme and report this to management

d. To monitor key compliance activities and report appropriately to management

- To develop and implement effective compliance-monitoring programs.
- To provide management reports to senior management, Managing Board and committees on compliance activities, issues and performance indicators.
- To provide compliance reporting to our regulators where required.
- To follow-up on monitoring output, and ensure appropriate corrective action is taken.
- To escalate appropriately issues that, in the judgment of the function have not been adequately dealt with.

e. To co-ordinate and assist in the management of our relationship with our regulators

- To engage in professional relevant dialogue with our regulators
- To monitor communication with regulators
- To assist Executives Board with relationship regulatory issues
- To monitor regulatory trends
- To proactively advise on proposed regulatory contact
- To co-ordinate and advise on regulatory investigations

f. To provide an annual Compliance Programme

- To create and agree with our business partners on an annual programme of compliance activities designed to meet the bank's compliance obligations.
- To agree with senior management and the business that sufficient resources are available to Compliance in order to carry out its responsibilities effectively.

6. *Organisation and independence of Compliance*

The compliance function within the bank is the independent oversight on behalf of senior management of those core processes and related policies and procedures that seek to ensure the bank is in conformity with industry-specific laws and regulations in letter and spirit, thereby helping to maintain the bank's reputation.

7. *Santander (Brazil) Product Executive Committee*

The Santander Brazil Product Executive Committee is responsible for validate new products or services and improvements, whose risks have not been previous and completely mitigated in previous instances.

On the basis of the documentation received, the Santander (Brazil) Product Executive Committee, after checking that all requirements for the approval of the new product or service have been met and considering the risk, either approves, rejects or sets conditions for the proposed new product or service.

The Compliance-Products Review & Approval Management (GRAP) area is responsible for assuring the viability of the products approval process, considering that any product or service in the Santander (Brazil) can be launched or commercialized before its general characteristics, risks, legal viability, and procedures (such as, operational, technological, among others), must be analyzed previously and recommended for all the functional areas, as well as approved for the competent level instance.

Before a new product or service is launched, the areas with any independent experts required to correctly evaluate the risks incurred (such as, for example, Money Laundering Prevention), conduct an exhaustive analysis of all the matters involved and express their opinion as to whether the product or service should be marketed. Furthermore, it must be submitted to the Product Operational Forum for operational validation by all the involved areas.

After positive recommendation of the Product Operational Forum, the products/services must be submitted the Product Committee (GB&M/Retail), Product Executive Committee, President of the Bank and/or New Product Global Committee — CGNP (Spain), as level of involved characteristics the risks approval level.

- *Instances/Approval levels*
  - *1st level* — Products Operational Forum — composed by the operational and support areas analysts;
  - *2nd level* — Product Committees and Financial Instruments Committees — composed by Directors, Superintendents and the Functional Areas Managers;
  - *3rd level* — Product Executive Committee — composed by Santander Brazil Executives
  - *4th level* — President of the Bank — specifically for products or services that represent high reputational risk;
  - *5th level* — New Products Global Committee (CNGP)- composed by Santander Executives, with headquarters in Spain.

The products and services approval contemplates the standardized procedures for all new product or service approval or relevant improvement in the Santander Brazil. However, are not included in the products or services approval process: credit policies, significative prices improvement, promotions, campaigns and aspects to the product/ service brand.

VI. COMPLIANCE WITH THE NEW REGULATORY FRAMEWORK

The Santander Bank has assumed from the outset a firm commitment to the principles underlying the "Revised Framework of International Convergence of Capital Measurement and Capital Standards" (Basel II). This framework allows entities to make internal estimates of the capital they are required to hold in order to safeguard their solvency against events caused by various types of risk. As a result of this commitment, the Santander Bank has devoted all the human and material resources required to ensure the success of the Basel II implementation plan. For this purpose, a Basel II team was created in the past, consisting of qualified professionals from the Bank's different areas: mainly Risks, Technology and Operations, the Controller's Unit, Financial Management, Internal Audit — to verify the whole process, as the last layer of control at the entity-, and Business — particularly as regards the integration of the internal models into management. Additionally, specific work teams have been set up to guarantee the proper management of the most complex aspects of the implementation.

Supplementing the efforts of the Basel II operating team, Santander Bank senior management has displayed total involvement from the very beginning. Thus, the progress of the project and the implications of the implementation of the New Capital Accord for the Santander Bank have been reported to the management committee and to the board of directors on a regular basis.

In the specific case of credit risk, the implementation of Basel II entails the recognition, for regulatory capital purposes, of the internal models that have been used for management purposes.

The Bank intends to apply, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of net exposure of the loan portfolio covered by this approach is close to 100%.

Given the medium-low risk profile characterizing Santander's business activities, since it focuses primarily on commercial banking (corporations, SMEs and individuals), the authorization granted by the Bank of Spain gave rise to significant capital savings under the so-called Pillar 1, which establishes the capital requirements to cover credit, market and operational risks. Similarly, the significant diversification of the Bank's risk and business profiles will enable it to offset the additional capital requirements arising from the Internal Capital Adequacy Assessment Process (presented under Pillar 2), which takes into account the impact of risks not addressed under Pillar 1 and the benefits arising from the diversification among risks, businesses and geographical locations.

In addition to the supervisory validation and approval process, the Santander Bank continued in 2008 with the project for the progressive implementation of the technology platforms and methodological developments required for the roll-out of the AIRB approaches for regulatory capital calculation purposes. Therefore, the Bank expects to apply advanced approaches for the calculation of regulatory capital requirements at its business units in Brazil in 2013, after the required approval from the supervisory authorities has been obtained.

As regards the other risks explicitly addressed under Pillar 1 of Basel II, the Santander Bank was authorized to use its internal model for market risk with respect to the Treasury area's trading activities in Brazil, although it intends to extend this approval to the other units. As far as operational risk is concerned, the Bank decided to use the standardized approach for regulatory capital calculation purposes, since it considers that the use of AMA approaches for this risk is somewhat premature.

Pillar 2 is another significant line of action under the Basel II Corporate Framework. In addition to reviewing and strengthening the methodology supporting the economic capital model, the technology was brought into line with the platform supporting Pillar 1, so that all the information on credit risk will come from this source when Brazil implement internal models under Pillar 1. In 2008 the Santander Bank's economic capital model was submitted to a thorough review by an international team of CEBS supervisors led by the Bank of Spain, in addition to the internal review conducted at the end of 2008 by the Bank's internal validation and internal audit teams.

Internal validation of risk models

Internal validation is a pre-requisite for the supervisory validation process. A specialized unit of the Entity, with sufficient independence, obtains a technical opinion on the adequacy of the internal models for the intended internal or regulatory purposes, and concludes on their usefulness and effectiveness. This unit must also assess whether the risk management and control procedures are adequate for the Entity's risk strategy and profile.

In addition to complying with the regulatory requirement, the internal validation function provides an essential support to the risk committee and the local risk committees in the performance of their duties to authorize the use of the models (for management and regulatory purposes) and in their regular reviews, since senior management must ensure that the Entity has appropriate procedures and systems in place for the monitoring and control of credit risk.

Internal model validation at the Santander Bank encompasses credit risk models, market risk models, option pricing models and the economic capital model. The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the quality of the data they provide, on which their effective operation relies, and, in general, all the relevant aspects of advanced risk management (controls, reporting, uses, involvement of senior management, etc.). Therefore, the aim of internal validation is to review quantitative, qualitative, technological and corporate governance-related aspects.

The internal validation function is located, at corporate level, within the Integrated Risk Control and Internal Risk Validation area (CIVIR) and reports directly to head office (the third deputy chairman of the Bank and to the chairman of the risk committee) in Madrid. This function is performed at a global and corporate level in order to ensure uniformity of application. The need to validate models implemented at thirteen different units subject to nine different local supervisors, combining efficiency and effectiveness, made it advisable to create three corporate validation centers located in Madrid, London and Sao Paulo. This facilitates the application of a corporate methodology that is supported by a set of tools developed internally by the Santander Bank which provide a robust corporate framework for application at all the Bank's units and which automate certain verifications to ensure efficient reviews.

It should be noted that the Santander Bank's corporate internal validation framework is fully consistent with the internal validation criteria for advanced approaches issued by the Bank of Spain. Accordingly, the Bank maintains the segregation of functions between internal validation and internal audit, which, in its role as the last layer of control at the Bank, is responsible for reviewing the methodology, tools and work performed by internal validation and for giving its opinion on the degree of effective independence.

VII. ECONOMIC CAPITAL

Main objectives

The emergence of economic capital models across the financial world was aimed at addressing a fundamental problem of regulatory capital. Risk Sensitiveness. The latter is mandatory and has been defined by regulators in a one-size-fits-all manner for comparison purposes.

(Thousands of Brazilian Reais)

By contrast, economic capital models are primarily designed to yield risk sensitive estimations with two objectives in mind: managing risk more accurately and allocating the cost of maintaining regulatory capital among different units within the organisation.

Taking into consideration the importance of developing risk sensitive capital models, Santander Brazil has been making all the efforts to build a robust economic capital model and integrate it fully in the management of the business.

The main objectives of Santander's Economic capital framework are:

1 — Consolidate Pillar II and other risks impinging business activities into a single quantitative model, as well as fine tune capital estimations by establishing correlations between the different risks;

2 — Quantify and monitor variations on different types of risk;

3 — Distribute capital consumption for the main portfolios and manage its return on capital efficiency (RoRAC);

4 — Estimate the Economic Value Added for each business unit in order to assess performance targets and improve the shareholder's return. The Economic profit must surpass the group's Cost of Capital;

5 — Compliance with the home and host regulators in the process of the supervisory review of Pillar II.

The Model

When calculating economic capital the Bank must decide the levels of losses it wants to cover. This is defined by the level of confidence with which it wants to ensure the continuation of its business. Santander's adopted confidence level is at 99.97% which is considerably above the 99.90% required by Basel II. This basically means that Santander assumes a probability of default of 0.03%, three times lower than the 0.1% proposed by Basel II.

As a result of its prudent economic capital model, Santander meets the criteria for receiving a global AA rating.

Brazil's Risk profile

The risk profile of Brazil is distributed by the following types of risks:

Risks	Economic Capital
Credit	73.6%
Business	8.5%
Operational	7.5%
ALM	6.4%
Market	4.0%
	100.0%

The Credit activity, which in March 2009 required 73.5% of Brazil's economic capital, continued to be the main source of risk. This was followed by Business and Operational Risk. The former has very conservative Beta factors applied to General Business Expenses and the latter uses as its basis the

(Thousands of Brazilian Reais)

Standardised approach. As such, it applies Beta factors to the Gross Income and it is considered rather conservative for a country with high spreads.

Risks	December 2007	June 2007	December 2008	June 2008
Credit	73.3%	74.0%	73.7%	73.1%
Business	9.3%	9.4%	10.3%	8.5%
Operational	8.4%	8.5%	7.0%	7.5%
ALM	7.2%	6.5%	7 2%	6.7%
Market	1.8%	1.6%	1.8%	4.2%
	100.0%	**100.0%**	**100.0%**	**100.0%**
	9.5	**10.6**	**9.6**	**9.2**

(*) The Economic Capital model did not include Banco Real in the estimations of Dec 07 and Jun 08. In order to include both banks a proxy was used for the estimations

(**) A forecast has been used for Jun 09

Brazil's RoRAC (risk adjusted return) was 23.5%.

Santander Brazil periodically assesses the level and evolution of the creation of value (EVA) of its main business units. The EVA is the profit generated above the cost of capital employed, and is calculated using the following formula:

EVA=RoRAC — Cost of Capital

RoRAC=Economic Profit/Economic Capital

The economic profit is obtained by making some necessary adjustments to the Net profit. The cost of capital, which is the minimum remuneration required by the shareholders, can be calculated by adding to the risk free return (German Bond), the premium that shareholders require to invest in Santander Brazil. This premium will essentially depend on the degree of the volatility in the price of our shares in relation to the market's performance. The cost of capital calculated for 2009 is 10.53%. It is important to mention that this cost is the Global cost. The cost of capital for Brazil is higher, mainly because the risk free return.

Santander also conducts capital planning based on stress test scenarios with the purpose of obtaining future projections of economic and regulatory capital. Results forecasts for the Bank are incorporated into the various scenarios in a coherent way, including their strategic objectives (organic growth, M&A, pay-out ratio, debt issues, etc). Possible capital management strategies are identified to enable the Bank's solvency and return on capital to be optimised.

Despite the economic capital estimations yield conservative numbers, Santander presented is in a very comfortable position. The bank has 18% more capital than the economic capital requirement. As for the regulatory capital the bank has 33% more capital.

Rorac

Santander has been using RoRAC since 1993, with the following purposes:

1 — To analyse and set a minimum price for operations (admissions) and clients (monitoring);

2 — To estimate the capital consumption of each client, economic groups, portfolio or business segments in order to optimize the allocation of economic capital thus maximising the bank's efficiency;

3— To calculate the level of provisions that correspond to average expected losses.

For assessing each transaction the economic capital takes into consideration some variables in order to calculate the Expected and Unexpected losses.

Amongst these variables it is taken into consideration:

1 — Counterparty rating;

2 — Maturity;

3 — Guarantees;

4 — Type of financing;

The return on capital is determined by the cost of capital. In order to create value for the shareholders the minimum return that a transaction must yield must be higher than Santander's cost of capital. A transaction which does not cover the cost of capital is not approved.

VIII. TRADING BOOK SENSITIVITY ANALYSIS

From a local regulatory point of view, Banco Santander's trading risk management is focused on portfolios and risk factors pursuant to BACEN's regulations and good international practices.

As in the management of market risk exposure, financial instruments are segregated into trading and banking portfolios according to the best market practices and the transaction classification and capital management criteria of the Basel II New Standardized Approach of BACEN. The trading portfolio consists of all transactions with financial instruments and products, including derivatives, held for trading, and the banking portfolio consists of core business transactions arising from the different Bank business lines and their possible hedges. Accordingly, based on the nature of the Bank's activities, the sensitivity analysis was fully applied to the trading portfolio, as this portfolio represents the exposures that may have impacts on the Bank's income.

The table below summarizes the stress values generated by the Bank's corporate systems, related to the trading portfolio, for each one of the portfolio scenarios as of the dates specified on each table and does not necessarily reflect the current position, in view of the market dynamics and the Bank's activities.

Santander Group Brazil Trading Book Sensitivity

in thousands of BRL

	Dec. 2007		
Risk Factor	**Scenario 1**	**Scenario 2**	**Scenario 3**
IR USD	(12.794)	(42.669)	(128.073)
IR Other Currency	2.745	27.454	137.272
Fixed Rate (BRL)	(4.969)	(49.691)	(248.455)
Cash Equity & Equity Index	11.867	29.669	59.337
Inflation	(7.129)	(71.289)	(356.445)
Other	(1.553)	(15.535)	(77.674)
TOTAL	**(11.832)**	**(122.060)**	**(614.039)**

	Dec. 2008		
Risk Factor	**Scenario 1**	**Scenario 2**	**Scenario 3**
IR USD	(1,092)	14,279	96,598
IR Other Currency	(1,198)	(11,981)	(59,903)
Fixed Rate (BRL)	(3,354)	(33,536)	(167,681)
Cash Equity & Equity Index	3,812	9,529	19,058
Inflation	(1,809)	(18,086)	(90,431)
Other	(3,609)	(36,091)	(180,455)
TOTAL	**(7,250)**	**(75,886)**	**(382,814)**

Note: 2007 sensitivity does not include Banco Real figures

Scenarios 2 and 3 above consider the deterioration situations established in CVM Instruction 475, of December 17, 2008, considered as of low probability. According to the strategy defined by Management, if signs of deterioration are detected, actions are taken to minimize possible negative impacts.

Scenario 1: usually reported in our daily reports and corresponds to an upward shock of 10 basis points on the local and foreign currencies coupon curves, plus a shock of 10% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of ten basis points on the volatility surface of currencies used to price options.

Scenario 2: corresponds to an upward shock of 100 basis points on the local and foreign currency coupon curves, plus a shock of 25% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of 100 base points on the volatility surface of currencies used to price options.

Scenario 3: corresponds to an upward shock of 500 basis points on the local and foreign currency coupon curves, plus a shock of 50% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of 500 basis points on the volatility surface of currencies used to price options.

IR USD: all products with price changes tied to changes in the US currency and the US dollar interest rate.

IR Other Currency: all products with price changes tied to changes in any currency other than the US dollar and the US dollar interest rate.

Fixed rate (BRL) - in Brazilian reais: all products with price changes tied to changes in interest rate in Brazilian reais.

Equities and indices: stock market indices, shares and options tied to share indices or the shares themselves.

Inflation: all products with price changes tied to changes in inflation coupons and inflation indices.

Other: any other product that does not fit in the classifications above.

45. Transition to International Financial Reporting Standards

The Bank's accounting policies were changed on January 1, 2007 to comply with IFRS. The transition to IFRS is accounted for in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards," with January 1, 2007 as the date of transition. The changes in accounting policies as a consequence of the transition to IFRS and the reconciliation of the effects of the transition to IFRS are presented below. The Bank prepared its opening balance sheet at January 1, 2007, by applying the accounting policies and rules and the measurement bases described in Note 2, with the exception of the following exemption, as permitted by IFRS 1 and described below:

- Business combinations:

The Bank elected not to apply IFRS 3 retrospectively to business combinations that occurred prior to January 1, 2007, the date of transition. By electing not to apply IFRS 3 retrospectively, we have:

- Recognized all of the related assets and liabilities at the date of transition that were acquired or assumed in a past business combination, except for those that would not qualify as an assets or liability under IFRS;
- Used the carrying amount under Brazilian GAAP of assets acquired and liabilities assumed in those business combinations based on their deemed cost under IFRS at that date.
- Used the carrying amount of goodwill in the opening IFRS statement of financial position based on its carrying amount under previous GAAP at the date of transition to IFRS, without any adjustments for previous amortization or any other items.
- Measured non-controlling interests and deferred tax following the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

- Fair value or revaluation as deemed cost:

  The Bank elected to use the carrying amount under Brazilian GAAP as its deemed cost for tangible assets.

- Designation of previously recognized financial instruments:

The Bank elected to designate certain investments in debt securities as "available for sale" and certain loans receivables and deposits as "fair value through profit or loss" on the date of transition.

- Share-based payment transactions:

The Bank elected to apply IFRS 2 to the liabilities arising from share-based payment transactions that were settled before the date of transition to IFRS.

The transition to IFRS resulted in the following changes in accounting policies:

a) Redesignation of financial instruments to available-for-sale:

Under BR GAAP, the Bank accounts for certain investments in debt securities at amortized cost and equity instruments at cost. Under IFRS, the Bank has classified these investments as available-for-sale, measuring them at fair value with the changes recognized in other comprehensive income, under the scope of IAS 39 "Financial Instruments: Recognition and Measurement".

b) Impairment on loans and receivables:

Under IFRS, based on the guidance provided by IAS 39 "Financial Instruments: Recognition and Measurement", the Bank estimates the allowance for loan losses based on historical experience of impairment and other circumstances known at the time of assessment, as further discussed in Note 2.g. Such criteria differs in certain aspects, to the criteria adopted under BR GAAP, which uses certain regulatory limits defined by the Brazilian Central Bank for purposes of allowance for loan losses calculation.

c) Accounting under equity method:

Under Brazilian GAAP, investments in certain associates are accounted for at cost, as they do not meet the criteria, under these accounting principles, to be accounted for using the equity method. Such criteria include total ownership of at least 10% and the relevance of the investment in the associate in relation to the investor's total equity. Under IFRS, in accordance with IAS 28 "Investments in Associates", an investment in an associate which the investor has significant influence, even if less than 20% of ownership, is accounted for using the equity method of accounting. In accordance to Resolution CMN No. 3.619, BR GAAP has been amended to converge with the guidance provided by IAS 28, effective December, 2008.

d) Impairment losses on tangible assets:

Under BR GAAP, impairment losses on certain tangible assets relating to the Bank's branches were recognized during the year ended December 31, 2008 as a result of the adoption of CPC 01, "Reduction in the Recoverable Value of Assets." CPC 01 changed the methodology used in BR GAAP to converge to IFRS (IAS No. 36, "Impairment of Assets.").

Prior to the issuance of CPC 01, the Bank grouped together certain branch assets when evaluating for recoverability. Under IFRS, the Bank evaluates these assets for impairment at the level of each individual branch, in which for the Bank represents a cash generating unit in accordance with IAS 36 "Impairment of Assets". This difference only impacted the Bank's balance sheet at January 1, 2007 and for the year ended December 31, 2007, since the accounting policies converged during 2008.

e) Pension discount rate:

Under BR GAAP, the discount rate used for benefit obligations reflects the nominal interest rate. Under IFRS, in accordance with IAS 19 "Employee Benefits", the rate used to discount post-employment benefit obligations was determined by reference to market yields at the end of the reporting period on high quality bonds.

f) Income taxes:

Deferred income taxes were recorded on the differences between BR GAAP and IFRS where applicable. Additionally, under BR GAAP, the Bank classifies PIS and COFINS taxes as operating expenses. Under IFRS, as described in Note 2.x, PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses), therefore and accordingly to IAS 12 it is recorded as income taxes.

g) Classification of financial instruments at fair value through profit or loss:

Under BR GAAP, all loans and receivables and deposits are accounted for at amortized cost. Under IFRS, the Bank designated certain loans and receivables and deposits as "fair value thought profit or loss" , in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The Bank has selected such classification basis as it eliminates an accounting mismatch in the recognition of income and expenses.

h) Deferral of financial fees, commissions and inherent costs under effective interest rate method:

Under IFRS, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", financial fees, commissions and inherent costs that are integral part of effective interest rate of financial instruments measured at amortized cost are recognized in profit or loss over the term of the corresponding contracts. Under BR GAAP, these fees and expenses are directly recognized in the profit or loss when received or paid.

i) Reversal of goodwill amortization:

Under BR GAAP, goodwill is amortized systematically over a period of up to 10 years. Under IFRS, in accordance with IAS 38 "Intangible Assets", goodwill is not amortized, but instead, is tested for impairment, at least annually, and whenever there is an indication that the goodwill may be impaired; by comparing its recoverable amount with its carrying amount.

j) Mark to Market of Foreign Currency Forward:

Under IFRS, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", foreign currency forward contracts are derivatives that are recorded at fair value. Under BR GAAP, these contracts are recorded at amortized cost.

k) Impairment of other financial assets:

Under IFRS, the Bank estimated the impact of accounting for allowance for financial assets, which is different, in certain aspects, to the criteria adopted under BR GAAP.

l) Purchase Price Adjustments — Amortization

As part of the purchase price allocation, following the requirements of IFRS 3, the Bank has revalued its assets and liabilities to fair value, including identifiable intangible assets with finite lives. Under BR GAAP, in a business combination, the assets and liabilities are not remeasured to their related fair values. Therefore, this adjustment relates to the following items:

- The amortization related to the step up in the value of assets in the loan portfolio in relation to its book value: As the value of the loans were adjusted to fair value, this causes an adjustment to the yield curve of the related loans in comparison to its nominal value, which is offset pro-rata with this adjustment.

- The amortization of the identified intangible assets with finite lives over their estimated useful lives (over 10 years).

a) Consolidated balance sheet: reconciliation at January 1, 2007 — Assets, liabilities and equity

		Thousands of Reais		
	Note	Closing Balance Under BRGAAP	Effects of Transition to IFRS	IFRS Opening Balance
Cash and balances with the Brazilian Central Bank		6,925,715	—	6,925,715
Financial assets held for trading		22,993,500	—	22,993,500
Available-for-sale financial assets	a	16,748,178	2,144,465	18,892,643
Loans and receivables	b, h	43,352,560	(143,948)	43,208,612
Non-current assets held for sale		32,000	—	32,000
Investments	c	36,997	11,685	48,682
Tangible assets	d	1,082,429	(21,357)	1,061,072
Intangible assets		1,136,083	—	1,136,083
Tax assets	f	4,067,159	145,741	4,212,900
Current		397,280	—	397,280
Deferred	f	3,669,879	145,741	3,815,620
Other assets		509,465	—	509,465
TOTAL ASSETS		**96,884,086**	**2,136,586**	**99,020,672**
Financial liabilities held for trading		2,317,525	—	2,317,525
Financial liabilities at amortised cost		77,096,849	—	77,096,849
Provisions	e	7,968,284	263,346	8,231,630
Tax liabilities	f	536,436	792,118	1,265,554
Current		80,363	—	80,363
Deferred	f	456,073	792,118	1,185,191
Other liabilities		989,324	—	989,324
TOTAL LIABILITIES		**89,908,418**	**992,464**	**89,900,882**
Shareholders' equity		7,844,144	(308,240)	7,535,904
Minority interests		57	—	57
Valuation adjustments	a	131,467	1,452,362	1,583,829
TOTAL EQUITY		**7,975,668**	**1,144,122**	**9,119,790**
TOTAL LIABILITIES AND EQUITY		**96,884,086**	**2,136,586**	**99,020,672**

BANCO SANTANDER (BRASIL) S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 — (Continued)
(Thousands of Brazilian Reais)

	Note	Thousands of Reais As of January 1, 2007
Shareholders' equity attributed to the Bank under Brazilian GAAP		**7,975,668**
IFRS adjustments, net of taxes:		
Pension discount rate	e	(173,808)
Redesignation of financial instruments to available-for-sale	a	1,405,072
Impairment on loans and receivables	b	(236,940)
Accounting under equity method	c	11,685
Deferral of financial fees, commissions and inherent costs under effective interest rate method	h	141,934
Impairment losses on tangible assets	d	(14,096)
Other		10,218
Shareholders' equity attributed to the Bank under IFRS		**9,119,733**
Minority interest under IFRS		57
Shareholders' equity (including minority interest) under IFRS		**9,119,790**

b) Consolidated balance sheet: reconciliation at December 31, 2007 — Assets, liabilities and equity

		Thousands of Reais		
	Note	Closing Balance Under BRGAAP	Effects of Transition to IFRS	IFRS Closing Balance
Cash and balances with the Brazilian Central Bank		22,276,565	376	22,276,941
Financial assets held for trading		12,292,501	—	12,292,501
Other financial assets at fair value through profit or loss	g	—	1,647,806	1,647,806
Available-for-sale financial assets	a	7,735,987	1,567,470	9,303,457
Loans and receivables	b, h	56,556,786	(1,522,526)	55,034,260
Non-current assets held for sale		32,000	—	32,000
Investments in associates	c	43,862	10,703	54,565
Tangible assets	d	1,128,849	(17,879)	1,110,970
Intangible assets		1,799,182	—	1,799,182
Tax assets	f	3,986,146	237,057	4,223,203
Current		149,998	—	149,998
Deferred	f	3,836,148	237,057	4,073,205
Other assets		544,348	—	544,348
TOTAL ASSETS		**106,396,226**	**1,923,007**	**108,319,233**
Financial liabilities held for trading		4,650,305	—	4,650,305
Other financial liabilities at fair value through profit or loss	g	—	690,285	690,285
Financial liabilities at amortised cost	g	85,485,210	(704,297)	84,780,913
Provisions	e	4,534,033	282,288	4,816,321
Tax liabilities	f	1,008,040	710,801	1,718,841
Current		266,201	—	266,201
Deferred	f	741,839	710,801	1,452,640
Other liabilities		1,453,988	—	1,453,988
TOTAL LIABILITIES		**97,131,576**	**979,077**	**98,110,653**
Shareholders' equity		8,922,155	(250,676)	8,671,479
Minority interests		57	—	57
Valuation adjustments	a	342,438	1,194,606	1,537,044
TOTAL EQUITY		**9,264,650**	**943,930**	**10,208,580**
TOTAL LIABILITIES AND EQUITY		**106,396,226**	**1,923,007**	**108,319,233**

c) Consolidated income statement for 2007

		Thousands of Reais		
	Note	Closing Balance Under BRGAAP	Effects of Transition to IFRS	IFRS Closing Balance
Net interest income	h	**6,014,004**	**181,282**	**6,195,286**
Income from equity instruments		36,387	—	36,387
Share of results of entities accounted for using the equity method		6,865	(981)	5,884
Fee and commission income		3,363,518	—	3,363,518
Fee and commission expense		(265,546)	—	(265,546)
Gains/losses on financial assets and liabilities (net)	g	1,475,140	41,524	1,516,664
Exchange differences (net)		381,587	—	381,587
Other operating income (expenses)	h	225,859	(92,935)	132,924
Gross income		**11,237,814**	**128,890**	**11,366,704**
Administrative expenses	h	(4,472,142)	11,925	(4,460,217)
Depreciation and amortisation:		(581,841)	2,095	(579,746)
Provisions (net)	e	(1,177,192)	(19,220)	(1,196,412)
Impairment losses on financial assets (net)	b	(2,121,437)	(38,000)	(2,159,437)
Impairment losses on other assets (net)		(299,693)	1,611	(298,082)
Gains/losses on disposal of assets not classified as non-current assets held for sale		861	—	861
Gains/losses on disposal of non-current assets held for sale		13,470	—	13,470
Profit before tax		**2,599,840**	**87,301**	**2,687,141**
Income tax	f	(754,444)	(29,698)	(784,142)
Consolidated profit for the year		**1,845,396**	**57,603**	**1,902,999**
Profit attributed to minority interests		—	—	—
Profit attributed to the Bank		**1,845,396**	**57,603**	**1,902,999**

For the reconciliation of shareholders' equity and net income attributed to the Bank between Brazilian GAAP and IFRS see note 46.

46. Supplementary information — Reconciliation of shareholders equity and net income of the Bank (Not required under IFRS for the year ended December 31, 2008).

Following the Brazilian Securities Commission (CVM) Instruction 457/7 from 13/07/07, we present a reconciliation of shareholders' equity and net income attributed to the parent between Brazilian GAAP and IFRS, for each of the periods presented, below:

	Note	Thousands of Reais 2007	2008
Shareholders' equity attributed to the parent under Brazilian GAAP		48,756,557	9,264,593
IFRS adjustments, net of taxes:			
Pension discount rate	45.e	(179,343)	(186,309)
Classification of financial instruments at fair value through profit or loss	45.g	43,675	9,660
Redesignation of financial instruments to available-for-sale	45.a	552,854	1,168,967
Impairment on loans and receivables	45.b	(234,300)	(262,020)
Accounting under equity method	45.c	(5,970)	10,927
Deferral of financial fees, commissions and inherent costs under effective interest rate method	45.h	174,116	213,832
Reversal of goodwill amortization	45.i	376,766	—
Mark to market of foreign currency forward	45.j	(11,069)	—
Impairment of other financial assets	45.k	32,200	—
Impairment losses on tangible assets	45.d	1,542	(11,790)
Purchase price adjustments — amortization	45.l	315,992	—
Other		8,179	663
Shareholders' equity attributed to the parent under IFRS		**49,831,199**	**10,208,523**
Minority interest under IFRS		5,279	57
Shareholders' equity (including minority interest) under IFRS		**49,836,478**	**10,208,580**

	Note	Thousands of Reais 2008	2007
Net income attributed to the parent under Brazilian GAAP		1,580,614	1,845,396
IFRS adjustments, net of taxes:			
Pension discount rate	45.e	6,966	12,501
Classification of financial instruments at fair value through profit or loss	45.g	34,015	9,660
Redesignation of financial instruments to available-for-sale	45.a	49,260	(11,220)
Accounting under equity method	45.c	(16,897)	(758)
Deferral of financial fees, commissions and inherent costs under effective interest rate method	45.h	(39,716)	71,898
Reversal of goodwill amortization	45.i	376,766	—
Impairment on loans and receivables	45.b	27,720	(25,080)
Mark to market of foreign currency forward	45.j	(11,069)	—
Impairment of other financial assets	45.k	32,200	—
Impairment on tangible assets	45.d	13,332	2,310
Purchase price adjustment — amortization	45.l	315,992	—
Other		8,981	(1,708)
Net income attributed to the parent under IFRS		**2,378,164**	**1,902,999**
Minority interest under IFRS		231	—
Net income (including minority interest) under IFRS		**2,378,395**	**1,902,999**

47. Subsequent Events

Legal Merger

On April 14, 2009, the executive committees of Banco Real and Sudameris Distribuidora de Títulos e Valores Mobiliários S.A. (Sudameris DTVM) approved and decided to submit to the approval of their respective stockholders the "Merger Agreement of Sudameris Distribuidora de Títulos e Valores Mobiliários S.A. by Banco ABN AMRO Real S. A.".

On the same date, the executive committees of Banco Santander and Banco Real approved and decided to submit to the approval of the Board of Directors of Santander and its respective stockholders the corporate restructuring proposal as set out by the "Merger Agreement of Banco ABN AMRO Real S.A. by Banco Santander S.A." (the "Agreement").

The merger of Sudameris DTVM by Banco Real and the subsequent merger of Banco Real by Banco Santander (the "mergers") constitute fundamental stages for the consolidation of the Santander's investments in Brazil and the resulting strengthening of its operational and organizational structure, as well as the integration of their operations.

The merger of Banco Real by Banco Santander will allow the conclusion of the operational, administrative and technologic integration plan that has been implemented since the control of Banco Real was acquired, in July 2008, and the corporate restructuring related to the merger of all shares of Banco Real into Banco Santander in August 2008.

The merger of Banco Real will also allow (i) the integration of the banking businesses and activities in a single financial institution for all commercial, financial and legal purposes; (ii) the decrease in administrative costs, and (iii) the streamlining of the corporate structure of the Santander in Brazil.

The Mergers will be carried out through the transfer of the book net assets of the Aquired Companies to the equity of the Acquirers, based on the audited balance sheets as of March 31, 2009. Changes in equity occurring between the date of said balance sheets and the completion of the Mergers (date of the Extraordinary Shareholders' Meetings that approve the Mergers) will be recognized and recorded directly by the acquirers.

As the mergers involve wholly-owned subsidiaries, it will not be necessary, as a result of these transactions, to (i) determine a share exchange ratio; (ii) define withdrawal rights; (iii) increase the capital of Banco Santander and Banco Real, and (iv) change the voting, dividend or any other equity or corporate rights to which the stock issues by Banco Santander is currently entitled.

Real Tokio Marine

As set forth in the Shareholders Agreement of Real Tokio Marine Vida e Previdência S A ("RTMVP"), as a result of Banco Real shareholding control being assumed by Santander, AAB Dois Par exercised its right to acquire the remaining interest in RTMVP, which such right being transferred to Banco Santander on January 21, 2009. At the Board of Directors' meeting held on March 19, 2009, the sale of the following investments to Santander Seguros S A. was authorized: the 50% interest acquired in Real Tokio Marine Vida e Previdência S.A. and the 100% interest in ABN AMRO Brasil Dois Participações S.A., for the total amount of R$1,495 million, generating a net gain of R$45 million which was recorded in nonoperating income. At RTMVP's Extraordinary Shareholders' Meeting held in March 2009, the change of the company's name to Real Seguros Vida e Previdência S.A. was approved.

Investments

According to the public offering announced on June 25, 2009, the Bank sold a portion of its ownership interest in Companhia Brasileira de Meios de Pagamento — Visanet. The public offering was concluded on July 3, 2009 with the sale of the supplementary and additional shares offered by the owners.

The Bank's sale was equivalent to 7.67% of the total ordinary shares issued by Visanet. The total impact of the public offering corresponds to a net gain of approximately R$1.3 million.

BANCO SANTANDER (BRASIL) S.A.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 — (Continued)
(Thousands of Brazilian Reais)

APPENDIX I — SUBSIDIARIES OF BANCO SANTANDER (BRASIL) S.A.

		Participation%		As of and for the Year Ended December 31, 2008	
Direct and Indirect controlled by Banco Santander (Brasil) S.A.	**Activity**	**Direct**	**Indirect**	**Stockholders' Equity**	**Net Income (Losses)**
Banco ABN AMRO Real S.A.	Bank	100.00%	100.00%	11,857,754	869,747
ABN AMRO Administradora de Cartões de Crédito Ltda.	Credit Card	98.46%	100.00%	968,146	42,395
Santander Investimentos em Participações S.A.	Holding	97.62%	100.00%	967,656	159,418
Santander Brasil Arrendamento Mercantil S.A.	Leasing	99.99%	99.99%	525,885	45,784
ABN AMRO Brasil Dois Participações S.A.	Holding	100.00%	100.00%	338,715	204,059
Santander S.A. Corretora de Câmbio e Títulos	Broker	99.99%	100.00%	193,731	41,200
Santander Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda.	Asset manager	99.99%	100.00%	103,865	40,113
Santander Administradora de Consórcios Ltda.	Buying club	99.99%	100.00%	3,637	166
Santander Brasil S.A. Corretora de Títulos e Valores Mobiliários	Broker	99.99%	100.00%	1,016	8,588
Controlled by Banco ABN AMRO Real S.A.					
Real Leasing S.A. Arrendamento Mercantil	Leasing	—	99.99%	9,567,234	599,414
Banco de Pernambuco S.A. — BANDEPE	Bank	—	100.00%	3,669,198	238,695
Sudameris Distribuidora de Títulos e Valores Mobiliários S.A.	Dealer	—	100.00%	2,136,056	187,772
Banco Comercial e de Investimento Sudameris S.A.	Bank	—	99.80%	2,011,478	186,083
Aymoré Crédito, Financiamento e Investimento S.A.	Financial Companies	—	100.00%	622,942	(108,091)
ABN AMRO Arrendamento Mercantil S.A.	Leasing	—	99.99%	587,277	27,779
Real Corretora de Seguros S.A.	Broker	—	100.00%	77,102	59,729
Companhia Real Distribuidora de Títulos e Valores Mobiliários	Dealer	—	100.00%	76,142	430
ABN AMRO Securities (Brasil) Corretora de Valores Mobiliários S.A.	Broker	—	100.00%	62,852	(1,015)
ABN AMRO Administradora de Consórcio Ltda.	Buying club	—	100.00%	54,451	30,803
ABN AMRO Real Corretora de Câmbio e Valores Mobiliários	Broker	—	100.00%	47,132	47,132
Webmotors S.A.	Other Activities	—	100.00%	38,831	16,003
REB Empreendimentos e Administradora de Bens S.A.	Holding	—	100.00%	36,873	23,932
Real Microcrédito S.A.	Microcredit	—	100.00%	6,563	2,853
ABN AMRO Advisory Services S.A.	Other Activities	—	100.00%	1,710	466
Real Argentina S.A.	Other Activities	—	98.99%	259	(132)
Controlled by ABN AMRO Brasil Dois Participações S.A.					
Real Capitalização S.A.	Capitalization	—	100.00%	90,374	70,394
Controlled by ABN AMRO Administradora de Cartões de Crédito Ltda.					
Credicenter Empreen dimentos e Promoções Ltda.	Other Activities	—	100.00%	305,316	31,192
Cruzeiro Factoring Sociedade de Fomento Comercial Ltda.	Factoring	—	100.00%	124,516	8,509
ABN AMRO Brasil Participações e Investimentos S.A.	Holding	—	99.99%	15,814	(656)
Real CHP S.A.	Holding	—	92.78%	4,618	4,289
Controlled by Santander Investimentos em Participações S.A.					
Santander S.A. Serviços Técnicos, Administrativos e de Corretagem de Seguros	Insurance Broker	—	99.99%	55,251	29,271
Agropecuária Tapirapé S.A.	Other Activities	—	99.07%	6,442	427
Brazil Foreign Diversified Payment Rights Finance Company	Securitization	—	(a)	—	—

(a) Company over which effective control is exercised

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Banco ABN Amro Real S.A. and ABN Amro Brasil Dois Participações S.A.
Sao Paulo — SP — Brazil

We have audited the combined balance sheet of Banco ABN Amro Real S.A. and ABN Amro Brasil Dois Participações S.A. (together, the "Bank") as of December 31, 2007, and the combined statements of income, changes in equity, and cash flows for the year then ended and for the period from January 1 to August 29, 2008, all expressed in Brazilian reais. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the companies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The combined financial statements do not include the combined balance sheet at August 29, 2008; therefore, the combined financial statements relating to the period from January 1 to August 29, 2008 do not constitute a complete set of financial statements under the requirements of International Financial Reporting Standards as issued by the International Accounting Standards Board.

In our opinion, except for the omission of the combined balance sheet at August 29, 2008, as described in the preceding paragraph, such combined financial statements present fairly, in all material respects, the combined financial position of the Bank at December 31, 2007, and the combined results of its operations and its cash flows for the year then ended and for the period from January 1 to August 29, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The combined financial statements of the Bank have been prepared to comply with the requirements of Rule 3-05 of Regulation S-X of the United States Securities Exchange Commission as it relates to the registration statement of Banco Santander (Brasil) S.A.

/s/ Deloitte Touche Tohmatsu

July 20, 2009

BANCO ABN AMRO REAL S.A. AND ABN AMRO BRASIL DOIS PARTICIPAÇÕES S.A.

COMBINED BALANCE SHEET AT DECEMBER 31, 2007 (AUDITED)

	Note	2007
		(Thousands of Brazilian Reais)
ASSETS		
CASH AND BALANCES WITH BRAZILIAN CENTRAL BANK	**4**	**10,948,839**
FINANCIAL ASSETS HELD FOR TRADING		**3,396,133**
Debt instruments	**6**	*811,105*
Equity instruments	**7**	*276,555*
Trading derivatives	**8**	*2,308,473*
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		**146,636**
Debt instruments	**6**	*146,636*
AVAILABLE FOR SALE FINANCIAL ASSETS		**12,779,024**
Debt instruments	**6**	*12,745,782*
Equity instruments	**7**	*33,242*
LOANS AND RECEIVABLES		**77,309,697**
Loans and advances to credit institutions	**5**	*12,786,701*
Loans and advances to customers	**9**	*64,522,996*
HEDGING DERIVATIVES	**41**	**650,959**
NON — CURRENT ASSETS HELD FOR SALE	**10**	**39,445**
INVESTMENTS IN ASSOCIATES	**11**	**333,302**
TANGIBLE ASSETS	**12**	**1,050,997**
INTANGIBLE ASSETS		**1,206,954**
Goodwill	**13**	*581, 736*
Other intangible assets	**14**	*625,218*
TAX ASSETS		**3,980,202**
Current		*399,196*
Deferred	**23**	*3,581,006*
OTHER ASSETS	**15**	**985,196**
TOTAL ASSETS		**112,827,384**
LIABILITIES AND EQUITY		
FINANCIAL LIABILITIES HELD FOR TRADING		**1,725,441**
Trading derivatives	**8**	1,725,441
FINANCIAL LIABILITIES AT AMORTIZED COST		**90,672,087**
Deposits from credit institutions	**16**	26,347,431
Customer deposits	**17**	55,365,410
Marketable debt securities	**18**	3,001,419
Subordinated liabilities	**19**	1,999,200
Other financial liabilities	**20**	3,958,627
HEDGING DERIVATIVES	**41**	**5,210**
PROVISIONS	**21**	**3,443,277**
TAX LIABILITIES		**2,128,635**
Current		1,777,384
Deferred	**23**	351,251
OTHER LIABILITIES	**22**	**1,694,667**
TOTAL LIABILITIES		**99,669,317**
EQUITY		
SHAREHOLDERS' EQUITY	**26**	**13,093,328**
Issued capital		9,321,445
Reserves		1,541,519
Profit for the year attributable to the Parent		2,432,279
Less Dividends and remunaration		(201,915)
VALUATION ADJUSTMENTS		**59,337**
Available for sale financial assets	**25**	42,496
Cash flow hedges	**25**	16,841
MINORITY INTERESTS	**24**	**5,402**
TOTAL EQUITY		**13,158,067**
TOTAL LIABILITIES AND EQUITY		**112,827,384**

The accompanying Notes and Appendix I are an integral part of these combined financial statements

BANCO ABN AMRO REAL S.A. AND ABN AMRO BRASIL DOIS PARTICIPAÇÕES S.A.

COMBINED INCOME STATEMENTS
FOR THE PERIOD OF JANUARY 1 TO AUGUST 29, 2008 (AUDITED) AND 2007 (UNAUDITED) AND FOR THE YEAR ENDED DECEMBER 31, 2007 (AUDITED)

		(Debit)/Credit		
		For the Period January 1st to August 29,		For the Year Ended
	Note	2008 (Audited)	2007 (Unaudited)	2007 (Audited)
		(Thousands of Brazilian Reais, except for per share data)		
Interest and similar income	29	14,007,275	12,075,268	19,070,079
Interest expense and similar charges	30	(6,552,666)	(5,210,714)	(7,800,333)
INTEREST INCOME/(CHARGES)		**7,454,609**	**6,864,554**	**11,269,746**
Income from equity instruments	31	2,464	13,292	18,449
Income from companies accounted for by the equity method	11	193,239	136,718	182,608
Fee and commission income	32	2,039,795	1,634,942	2,524,909
Fee and commission expense	33	(427,667)	(479,410)	(762,207)
Gain/losses on financial assets and liabilities (net)	34	798,084	869,798	1,744,429
Held for trading		520,851	169,523	292,182
Other financial instruments at fair value through profit or loss		(17,488)	(14,738)	24,271
Financial instruments not measured at fair value through profit or loss		69,892	503,820	1,054,123
Other		224,829	211,193	373,853
Exchange differences (net)	35	(215,556)	(153,297)	(178,831)
Other operating income (expenses)	36	(17,078)	(145,790)	(286,799)
TOTAL INCOME		**9,827,890**	**8,740,807**	**14,512,304**
Administrative expenses		(4,346,786)	(3,759,526)	(6,227,064)
Personnel expenses	37	(2,125,968)	(1,902,738)	(3,185,141)
Other general expenses	38	(2,220,818)	(1,856,788)	(3,041,923)
Depreciation and amortization	12 & 14	(288,036)	(210,981)	(339,268)
Provisions (net)	21	(472,139)	(302,866)	(928,311)
Impairment losses on financial assets (net)		(2,469,696)	(1,837,858)	(2,897,639)
Loans and receivables	9	(2,470,175)	(1,838,130)	(2,877,906)
Other financial instruments not measured at fair value through profit or loss	7	479	272	(19,733)
Impairment losses on other assets (net)		(8,117)	(36,122)	(32,796)
Other assets		(8,117)	(36,122)	(32,796)
Gain/(losses) on disposal of assets not classified as non — current assets held for sale	39	25,681	19,664	28,412
Gain/(losses) on non — current assets held for sale	40	12,806	36,221	38,169
OPERATING PROFIT/(LOSS) BEFORE TAXES		**2,281,603**	**2,649,339**	**4,153,807**
Income taxes	23	(906,943)	(1,114,847)	(1,720,357)
PROFIT FOR THE YEAR/PERIOD		**1,374,660**	**1,534,492**	**2,433,450**
Profit attributable to the Parent		1,374,271	1,534,027	2,432,279
Profit attributable to minority interests	24	389	465	1,171

The accompanying Notes and Appendix I are an integral part of these combined financial statements

BANCO ABN AMRO REAL S.A. AND ABN AMRO BRASIL DOIS PARTICIPAÇÕES S.A.

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD OF JANUARY 1 TO AUGUST 29, 2008 (AUDITED) AND 2007 (UNAUDITED)
AND FOR THE YEAR ENDED DECEMBER 31, 2007
(AUDITED)
COMBINED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE

	For the Period January 1st to August 29,		For the Year Ended
	2008 (Audited)	2007 (Unaudited)	2007 (Audited)
	(Thousands of Brazilian Reais)		
COMBINED PROFIT FOR THE YEAR/PERIOD	**1,374,660**	**1,534,492**	**2,433,450**
OTHER RECOGNIZED INCOME (EXPENSE)	**(18,996)**	**(103,860)**	**(87,230)**
Available — for — sale financial assets	*(269,118)*	*(184,079)*	*(305,570)*
Cash flow hedges	*240,336*	*26,715*	*173,403*
Income tax	*9,786*	*53,504*	*44,937*
TOTAL RECOGNIZED INCOME AND EXPENSE	**1,355,664**	**1,430,632**	**2,346,220**
Attributable to the Parent	1,355,275	1,430,167	2,345,049
Attributable to minority interests	389	465	1,171
TOTAL	**1,355,664**	**1,430,632**	**2,346,220**

The accompanying Notes and Appendix I are an integral part of these combined financial statements

BANCO ABN AMRO REAL S.A. AND ABN AMRO BRASIL DOIS PARTICIPAÇÕES S.A.

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD OF JANUARY 1 TO AUGUST 29, 2008 (AUDITED) AND 2007 (UNAUDITED) AND FOR THE YEAR ENDED DECEMBER 31, 2007 (AUDITED) — (Continued)

COMBINED STATEMENT OF CHANGES IN TOTAL EQUITY

	Shareholders' Equity								
	Share Capital	Reserves	Profit Attributed to the Parent	Dividends and Remuneration	Total Shareholders' Equity	Valuation Adjustments	Total	Minority Interests	Total Equity
	(Thousands of Brazilian Reais)								
Balances at January 1, 2007	**7,790,934**	**2,517,593**	**—**	**—**	**10,308,527**	**146,567**	**10,455,094**	**4,554**	**10,459,648**
Total recognized income and expense	—	—	1,534,027	—	1,534,027	(103,860)	1,430,167	465	1,430,632
Dividends/Remuneration	—	(1,200,063)	—	—	(1,200,063)	—	(1,200,063)	—	(1,200,063)
Capital increase	963,827	(609,102)	—	—	354,725	—	354,725	—	354,725
Capital reductions	(3,243,729)	—	—	—	(3,243,729)	—	(3,243,729)	(339)	(3,244,068)
Corporate restructuring	2,134,053	2,433	—	—	2,136,486	—	2,136,486	—	2,136,486
Other	1,564,409	921,621	—	—	2,486,030	—	2,486,030	—	2,486,030
Balances at August 29, 2007	**9,209,494**	**1,632,482**	**1,534,027**	**—**	**12,376,003**	**42,707**	**12,418,710**	**4,680**	**12,423,390**
Balances at January 1, 2007	**7,790,934**	**2,517,593**	**—**	**—**	**10,308,527**	**146,567**	**10,455,094**	**4,554**	**10,459,648**
Total recognized income and expense	—	—	2,432,279	—	2,432,279	(87,230)	2,345,049	1,171	2,346,220
Dividends/Remuneration	—	(1,335,031)	—	(201,915)	(1,536,946)	—	(1,536,946)	—	(1,536,946)
Capital increase	1,075,778	(609,102)	—	—	466,676	—	466,676	—	466,676
Capital reductions	(3,243,729)	—	—	—	(3,243,729)	—	(3,243,729)	(339)	(3,244,068)
Corporate restructuring	2,134,053	2,433	—	—	2,136,486	—	2,136,486	—	2,136,486
Other	1,564,409	965,626	—	—	2,530,035	—	2,530,035	16	2,530,051
Balances at December 31, 2007	**9,321,445**	**1,541,519**	**2,432,279**	**(201,915)**	**13,093,328**	**59,337**	**13,152,665**	**5,402**	**13,158,067**
Total recognized income and expense	—	—	1,374,271	—	1,374,271	(18,996)	1,355,275	389	1,355,664
Appropriation of profit for the year	—	2,432,279	(2,432,279)	—	—	—	—	—	—
Dividends/Remuneration	—	(640,851)	—	(598,085)	(1,238,936)	—	(1,238,936)	—	(1,238,936)
Capital increase	2,876,760	(2,708,794)	—	—	167,966	—	167,966	—	167,966
Transfers	—	—	—	—	—	—	—	(870)	(870)
Other	28,140	(24,574)	—	—	3,566	—	3,566	(5)	3,561
Balances at August 29, 2008	**12,226,345**	**599,579**	**1,374,271**	**(800,000)**	**13,400,195**	**40,341**	**13,440,536**	**4,916**	**13,445,452**

The accompanying Notes and Appendix I are an integral part of these combined financial statements

BANCO ABN AMRO REAL S.A. AND ABN AMRO BRASIL DOIS PARTICIPAÇÕES S.A.

COMBINED CASH FLOW STATEMENTS
FOR THE PERIOD OF JANUARY 1 TO AUGUST 29, 2008 (AUDITED) AND 2007 (UNAUDITED) AND FOR THE YEAR ENDED DECEMBER 31, 2007 (AUDITED)

	For the Period of January 1st to August 29		For the Year Ended
	2008 (Audited)	**2007 (Unaudited)**	**2007 (Audited)**
	(Thousands of Brazilian Reais)		
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Combined profit for the year/period	1,374,660	1,534,492	2,433,450
Adjustments to profit	1,867,850	1,690,533	3,016,821
Depreciation of tangible assets	*140,381*	*119,628*	*184,768*
Amortization of intangible assets	*147,655*	*91,353*	*154,500*
Provisions for Loans and Receivables and Provisions (net)	*2,941,835*	*2,140,724*	*3,825,950*
Share of results of entities accounted for using the equity method	*(193,239)*	*(136,718)*	*(182,608)*
Taxes	*(1,168,782)*	*(524,454)*	*(965,789)*
	3,242,510	**3,225,025**	**5,450,271**
Net increase/decrease in operating assets:	**(21,931,430)**	**(10,978,928)**	**(13,017,282)**
Brazilian Central Bank compulsory deposits	(1,393,191)	(848,044)	(1,193,979)
Financial assets held for trading	(2,846,430)	882,023	1,859,105
Other financial assets at fair value through profit or loss	146,636	122,089	124,089
Available — for — sale financial assets	(5,904,388)	426,140	2,631,355
Loans and receivables	(11,145,377)	(13,710,353)	(18,785,443)
Other assets	(788,680)	2,149,217	2,347,591
Net increase/decrease in operating liabilities:	**17,844,327**	**9,913,553**	**9,304,796**
Financial liabilities held for trading	(560,944)	102,723	271,448
Financial liabilities at amortized cost	17,080,342	8,419,936	8,008,843
Other liabilities	1,324,929	1,390,894	1,024,505
Total net cash flows from operating activities(1)	**(844,593)**	**2,159,650**	**1,737,785**
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments	(521,740)	(661,141)	(496,668)
Tangible assets	(215,822)	(440,855)	(241,982)
Intangible assets	(305,918)	(220,286)	(254,686)
Divestments	112,715	290,859	62,557
Tangible assets	112,715	290,859	62,557
Total net cash flows from investing activities(2)	**(409,025)**	**(370,282)**	**(434,111)**
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Capital increase	167,966	(2,889,004)	(2,777,053)
Issuance of subordinated liabilities	1,366,579	1,855,446	1,855,446
Issuance of other long — term liabilities	105,516	218,124	644,646
Dividends paid	(543,759)	(1,124,559)	(1,190,496)
Redemption of other long — term liabilities	(62,119)	—	—
Increase/Decrease in minority interests	(485)	126	848
Total net cash flows from financing activities(3)	**1,033,698**	**(1,939,867)**	**(1,466,609)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (1+2+3)	**(219,920)**	**(150,499)**	**(162,935)**
Cash and cash equivalents at beginning of year	**1,781,775**	**1,322,397**	**1,322,396**
Cash and cash equivalents at end of year	**1,561,855**	**1,171,898**	**1,159,461**
Non — cash transactions:			
Non — cash Transactions:			
Loans transferred to foreclosed assets	27,764	43,881	78,148
Dividends and interest on capital declared but not paid	800,000	—	(201,915)
Corporate Restructuring (note 26)	—	2,136,486	2,136,486
Capital stock elimination (note 26)	—	2,491,079	2,535,100
Supplemental information:			
Interest received	14,373,302	12,285,307	18,726,585
Interest paid	(6,301,118)	(5,562,943)	(8,261,686)
Taxes paid	(1,392,650)	(919,678)	(1,520,656)

The accompanying Notes and Appendix I are an integral part of these combined financial statements

BANCO ABN AMRO REAL S.A. AND ABN AMRO BRASIL DOIS PARTICIPAÇÕES S.A.

COMBINED FINANCIAL STATEMENTS FOR THE PERIOD OF JANUARY 1 TO AUGUST 29, 2008 (AUDITED) AND 2007 (UNAUDITED) AND FOR THE YEAR ENDED DECEMBER 31, 2007 (AUDITED)

(Thousands of Brazilian Reais)

BANCO ABN AMRO REAL S.A. AND ABN AMRO BRASIL DOIS PARTICIPAÇÕES S.A.

Notes to the combined financial statements for the period January 1st to August 29, 2008 (audited) and 2007 (unaudited) and for the year ended December 31, 2007 (audited)

1. Introduction, basis of presentation of the combined financial statements and other information

a) Introduction

"Banco ABN AMRO Real S.A. and ABN AMRO Companies in Brazil" operate locally, mainly through Banco ABN AMRO Real S.A., an entity organized as a multiple bank. Banco ABN AMRO Real S.A, is the lead institution of the financial and non-financial groups with the Brazilian Central Bank, established as a corporation, with main offices at Av. Paulista, 1374, Sao Paulo and operates as a multiple service bank, conducting operations such as commercial foreign exchange, investment, credit and financing and mortgage loan, leasing portfolios and, through related entities, insurance, pension plan, capitalization, leasing, asset management, and securities and insurance brokerage operations. Transactions are conducted within the context of a group of financial institutions that operate on an integrated basis in the financial markets.

After the corporate restructuring (incorporation of shares), further described in Note 3, Banco ABN AMRO Real S.A. (Banco Real) and ABN AMRO Brasil Dois Participações S.A. ("AAB Dois Par") and their respective subsidiaries were integrated into Santander financial and non-financial conglomerate, as of August 29, 2008.

b) Basis of presentation of the combined financial statements

These financial statements have been prepared exclusively in order to comply with U.S. Code of Federal Regulations — Title 17 — Commodity and Securities Exchanges — Chapter II — Part. 210.3-05 Financial statements of businesses acquired or to be acquired ("Rule 3-05 of U.S. Regulation S-X") as it relates to the registration statement of Banco Santander (Brasil) S.A.

In this respect, Rule 3-05 of U.S. Regulation S-X requires the preparation and filing with the U.S. Securities and Exchange Commission ("SEC") of the financial statements of acquired business (Banco Real and AAB Dois Par) on a combined basis since both entities have been under common control for all periods presented.

Under International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), financial statements are prepared for an 'entity'. The term 'entity' for the preparation of these financial statements, as defined in paragraph 5 of IFRS framework indicates that: "A reporting entity is an entity for which there are users who rely on the financial statements as their major source of financial information about the entity". Therefore, due to the existence of common directors and management and since both Banco Real and AA Dois Par were operating as a single unit, both combined entities/operations have been considered as a reporting entity for the preparation of these combined financial statements. In this respect, each of Banco Real and AAB Dois Par financial information prepared in accordance with IFRS as issued by the IASB was considered and the combination considered all the appropriate elimination process consistent with full consolidation method.

Furthermore, during 2007 Banco ABN AMRO Real S.A. merged the entities ABN AMRO Brasil Participações Financeiras S.A. and BRI-PAR Dois Participações S.A., ratified by the Central Bank of Brazil on

April 9, 2008. As these entities are a part of the acquired businesses further mentioned in Note 3, their financial position and results of operations are also combined as part of these financial statements.

In addition, since these financial statements are prepared exclusively in order to comply with Rule 3-05 of U.S. Regulation S-X they do not include a balance sheet and related footnote as of August 29, 2008, which is a requirement in order to be considered a complete set of financial statements under IAS 1.

Therefore, except for the lack of information as indicated above, the combined financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The combined financial statements For the period January 1st to August 29, 2008 and 2007 and for the year ended December 31, 2007 are the first to be prepared in accordance with IFRS, with transition date to IFRS as of January 1, 2007 (opening balance sheet). Previous individual financial statements of Banco Real and AAB Dois have been prepared locally in Brazil in accordance with accounting practices established by Brazilian Corporate Law and standards established by the National Monetary Council (CMN), the Brazilian Central Bank (BACEN) and the Brazilian Securities Commission (CVM), the National Council of Private Insurance (CNSP) and the Superintendency of Private Insurance (SUSEP). Hereafter it shall be referred to as "Brazilian GAAP" or "BR GAAP".

Note 44 to the combined financial statements contains the reconciliation of the combined balance sheet balances at the transition date to IFRS as of January 1, 2007 and the year ended December 31, 2007 and related combined results for that year in BR GAAP to the corresponding balances for 2007 determined in accordance with IFRS.

The Notes to the combined financial statements contain supplementary information to that presented in the combined balance sheet, income statements, statements of changes in equity and cash flow statements. The Notes provide, in a clear, relevant and reliable manner, narrative descriptions and breakdowns of these combined financial statements.

All accounting policies and measurement basis with a material effect on the combined financial statements were applied in their preparation.

Adoption of new standards and interpretations

- IFRIC 14 IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: this interpretation provides guidance on determining the amount of any post employment benefit surplus that could be recognized as an asset on the balance sheet, how a minimum funding requirement affects that measurement, and when a minimum funding requirement can create an onerous obligation that should be recognized as a liability in addition to that otherwise recognized under IAS 19.

- *IFRIC 12 — Service Concession Arrangements:* this interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. The adoption of this interpretation did not have effects on the combined financial statements.

- *Amendments to IAS 39 and IFRS 7:* the approved amendments permit the reclassification of certain financial assets — debt and equity instruments that meet certain conditions — from financial assets held for trading to available for sale financial assets and held-to-maturity investments. They do not permit the reclassification of financial liabilities, derivatives and financial assets recognized initially as at fair value through profit or loss or the reclassification of instruments from other portfolios to the held-for-trading portfolio. In 2008 and 2007 the Combined Companies did not perform any reclassifications of this kind.

- *IFRS 8 Operating Segments:* this standard replaces IAS 14 and requires the amount reported for each segment item to be the measure used internally and reported to the chief operating decision maker for the purposes of allocating resources to that segment and assessing its performance.

The standards and interpretations that came into force and were adopted by the Combined Companies in 2008, further described above, did not have a material impact on the financial statements.

Standards and interpretations effective subsequent to August 29, 2008

The Combined Companies have not yet adopted the following new or revised IFRS or Interpretations, which have been issued but their effective date is subsequent to the date of these financial statements:

- *Revision of IAS 23 Borrowing Costs:* the amendments to IAS 23 eliminate the option to recognize all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalized as part of the cost of that asset.

- *Revision of IAS 1 Presentation of Financial Statements:* introduces certain changes in the presentation of financial statements, including changes to the titles of individual financial statements, since balance sheet is now referred to as a statement of financial position. The statement of changes in equity will only include changes in equity arising from transactions with owners acting in their capacity as owners. As regards “non-owner” changes (e.g. transactions with third parties or income and expenses recognized directly in equity), entities are no longer permitted to present items of other comprehensive income separately in the statements of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity. All items of income and expense (including those recognized outside of profit or loss) must be presented either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement and a statement of comprehensive income). IAS 1 also introduces new reporting requirements when the entity applies a change in accounting policy retrospectively, makes a restatement or reclassifies items in previously issued statements.

- *Amendment to IFRS 2 — Share-based Payment:* the objective of the amendment is basically to clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement.

- *Amendments to IAS 32 and IAS 1 — Puttable Financial Instruments and Obligations Arising on Liquidation:* the amendments address the classification of puttable financial instruments and obligations arising only on liquidation, with the object of providing a “short-term, limited scope amendment” designed to avoid outcomes arising under the general principles of IAS 32 that were counter-intuitive. Following the revisions, puttable financial instruments are presented as equity provided that they meet certain criteria including that of being the most subordinated class, and provided that they evidence a residual interest in the net assets of the entity.

- *Amendments to IFRS 1 and IAS 27, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate:* this amendment refers to separate financial statements of a subsidiary and, therefore, is not applicable to consolidated financial statements. Furthermore this amendment is applicable to financial statements for annual periods beginning after 1 July 2009.

- *IFRIC 13 Customer Loyalty Programmes:* this interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards as part of a sales transaction, such as credit card reward schemes.

- *Revision of IFRS 3 Business Combinations and Amendment to IAS 27 Consolidated and Separate Financial Statements:* introduce significant changes in several matters relating to accounting for business combinations, and only applied prospectively. These changes include most notably the following: acquisition costs must be expensed, rather than recognized as an increase in the cost of the business combination; in step acquisitions the acquirer must remeasure at fair value the investment held prior to the date that control is obtained; and there is an option to measure at fair value the minority interests of the acquiree, as opposed to the single current treatment of measuring them as the proportionate share of the fair value of the net assets acquired.

- *Amendments to IAS 39, Eligible Hedged Items:* this amendment establishes that inflation may only be designated as a hedged item if it is a contractually specified portion of the cash flows to be hedged. Only the intrinsic value and not the time value of a purchased option may be used as a hedging instrument.

- *IFRIC 15 Agreements for the Construction of Real Estate:* this interpretation clarifies the accounting of revenue and expenses associated by entities that undertake the construction of real estate directly or through subcontractors.

- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation:* this interpretation clarifies the following matters: firstly, the exposure to foreign exchange differences between the functional currency of the foreign operation and the presentation currency of the parent cannot be designated as a hedged risk, and only the foreign currency exposure arising between the functional currency of the parent and that of its foreign operation qualifies for hedge accounting; secondly, the hedging instrument used to hedge the net investment may be held by any entity within the group, not necessarily by the parent of the foreign operation; and, lastly, it addresses how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item on disposal of the foreign operation.

- *IFRIC 17 Distributions of Non-cash Assets to Owners:* this interpretation addresses the accounting treatment when an entity distributes assets other than cash as dividends to its shareholders, although its scope does not include distributions of assets within a group or between jointly controlled entities. The interpretation requires an entity to measure the dividend payable at the fair value of the assets to be distributed and to recognize any difference with respect to the carrying amount of the asset in profit or loss.

- *IFRIC 18 Transfers of Assets from Customers:* this interpretation clarifies the requirements of IFRS for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The basic principle of IFRIC 18 is that when the item of property, plant and equipment transferred from a customer meets the definition of an asset under the IASB Framework from the perspective of the recipient, the recipient must recognise the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the utility or other recipient entity.

The Combined Companies do not expect the adoption of the above-mentioned standards and interpretations to have a material effect on the combined financial statements taken as a whole.

c) Estimates made

The determination of equity and results are sensitive to the accounting policies, measurement basis and estimates used by the directors of the Combined Companies in preparing the combined financial statements. In the combined financial statements estimates were occasionally made by the senior executives of the Combined Companies in order to quantify certain assets, liabilities, income, expenses and commitments reported herein.

These estimates relate basically to the following:

- Fair value measurement of certain financial instruments

  The fair value of a financial instrument is the value at which it could be bought or sold in a current transaction between knowledgeable, willing parties on an arm's length basis. If a quoted price in an active market is available for an instrument, the fair value is calculated based on that price.

  If there is no market price available for a financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving the same or similar instruments and, in the absence thereof, on the basis of valuation techniques, using valuation techniques commonly used by the financial markets as follows:

  - The present value method for valuing financial instruments permitting static hedging (principally, forwards and swaps) and loans and advances. Expected future cash flows are discounted using the interest rate curves of the applicable currencies. The interest rate curves are generally observable market data.

  - The Black-Scholes model for valuing financial instruments requiring dynamic hedging (principally structured options and other structured instruments). Certain observable market inputs are used in the Black-Scholes model to generate variables such as the bid-offer spread, exchange rates, volatility, correlation between indexes and market liquidity, as appropriate.

  - Each of the present value method and Black-Scholes models is used for valuing financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors.

  - We use dynamic models similar to those used in the measurement of interest rate risk for measuring credit risk of linear instruments (such as bonds and fixed-income derivatives

  The methodology used for fair value measurements of certain financial instruments is further described in Note 2.d.

- The allowance for loan losses

  We cover losses inherent in debt instruments not measured at fair value taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods that have not yet been allocated to specific transactions.

We use the concept of incurred loss to quantify the cost of the credit, using statistical models that consider the following three factors: "exposure at default", "probability of default" and "loss given default", as further discussed in Note 2.g.

- The impairment losses on certain assets other than loans (including goodwill and other intangible assets)

Certain assets, including goodwill, other intangible assets and equity method investments are subject to impairment review. We record impairment charges when we believe there is objective evidence of impairment, or that the cost of the assets may not be recoverable. Assessment of what constitutes impairment is a matter of significant judgment.

- Tangible assets are further discussed in Note 2.k,
- Intangible assets are further discussed in Note 2.m
- Other assets are further discussed in Note 2.n
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations;

The Bank provides pension plans in the form of both defined contribution plans and defined benefit plans, in accordance with IAS 19.

The actuarial valuation is dependent upon a series of assumptions; the principal ones being:

- assumed interest rates;
- mortality tables;
- annual social security pension revision rate;
- price inflation;
- annual salary growth rate, and
- the method used to calculate vested commitments to current employees.

Post-employment benefits are further discussed in Note 2.t.

- The recognition and measurement of deferred tax items.

As discussed in Note 2.w, deferred tax assets are only recognized for temporary differences to the extent that it is considered probable that the combined entities will have sufficient future taxable profits against which the deferred tax assets can be utilized. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognized if it is considered probable that the combined entities will have sufficient future taxable profits against which they can be utilized.

In accordance with the current regulation, the expected realization of the Combined Companies' tax credits, as shown in Note 23, is based on the projection of future income and a technical studies.

These estimates are based on current expectations and estimates on projections of future events and trends, which may affect the combined financial statements. The principal assumptions that may affect these estimates, in addition to those previously mentioned above, relate to the following factors:

- Changes in deposit amounts, customer basis and defaults by borrowers
- Changes in interest rates,
- Changes in inflation rates,
- Government regulation and tax matters,
- Adverse legal or regulatory disputes or proceedings,
- Credit, market and other risks of lending and investment activities,
- Changes in market values of Brazilian securities, particularly Brazilian government securities,
- Changes in regional, national and international business and economic conditions.

d) Capital management

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

- imposes a minimum capital requirement of 11% in lieu of the 8% minimum capital requirement of the Basel Accord;
- requires an additional amount of capital with respect to off-balance sheet interest rate and foreign currency swap operations; and
- assigns different risk weighting to certain assets and credit conversion amounts, including a risk weighting of 300% on deferred tax assets relating to income and social contribution taxes.

Under CMN Resolution No. 2,099, as amended, financial institutions under common control (determined by the Brazilian Central Bank on a case-by-case basis in accordance with Brazilian law) may elect to have their capital adequacy ratios regulated and reported on a combined/consolidated basis. Banco Real has reported to the Brazilian Central Bank its capital adequacy ratio on a combined/consolidated basis.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the combined financial statements were as follows:

a) Foreign currency transactions

The functional currency used for the operations is the Brazilian Real. The assets and liabilities that are monetary items are converted by exchange rates at the end of the period, the non-monetary items are measured at historical foreign exchange rates at the date of such transactions and the income statement balances are converted by the average exchange rates for the period.

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognized at their net amount under "Exchange differences" in the income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognized in the combined income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognized under "Valuation adjustments — Exchange differences".

b) Basis of consolidation

i. Subsidiaries

"Subsidiaries" are defined as entities over which the Combined Companies have the capacity to exercise control; this capacity is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, as in the case of agreements with shareholders of the investee, the Combined Companies is granted control. Control is the power to govern the financial and operating policies of an entity, as stipulated by the law, the Bylaws or agreement, so as to obtain benefits from its activities.

The financial statements of the subsidiaries are fully consolidated with those of the Combined Companies. Accordingly, all balances and transactions between combined entities are eliminated on consolidation.

On acquisition of a subsidiary, its assets, liabilities and legal obligations are recognized at fair value at the date of acquisition. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognized as goodwill (see Note 13). Negative differences are charged to income on the date of acquisition.

Additionally, the share of third parties of the Combined Companies' equity is presented under "Minority interests" in the combined balance sheet (see Note 24). Their share of the profit for the year is presented under "Profit attributable to minority interests" in the combined income statement.

The results of subsidiaries acquired during the year are included in the combined income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the combined income statement from the beginning of the year to the date of disposal.

The Appendix I contains significant information on these entities.

ii. Interests in associates

Associates are entities over which the Combined Companies are in a position to exercise significant influence, but not control or joint control.

In the combined financial statements, investments in joint ventures and associates are accounted for using the equity method, i.e. at the Combined Companies' share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. In the case of transactions with a joint venture or associate, the related profits or losses are eliminated to the extent of the Combined Companies' investment in the joint venture or associate.

iii. Business, combinations, acquisitions and disposals

In 2008 and 2007 the Combined Companies were not a part of any significant business combination, acquisition or disposal with third parties. It was, however, part to a corporate restructuring of companies under common control, based on a non-monetary capital increase, as further described in Note 3.

c) Definitions and classification of financial instruments

i. Definitions

A "financial instrument" is any contract that gives rise to a financial asset of one entity and, simultaneously, to a financial liability or equity instrument of another entity.

An "equity instrument" is any agreement that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A "financial derivative" is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

"Hybrid financial instruments" are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in subsidiaries, jointly controlled entities and associates (see Note 11).
- Rights and obligations under employee benefit plans (see Note 21).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as "Non-current assets held for sale" or they relate to "Cash and balances with Brazilian Central Bank", "Hedging derivatives" and "Investments", which are reported separately.

Financial assets are included for measurement purposes in one of the following categories:

- *Financial assets held for trading (at fair value through profit or loss):* this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that are not designated as hedging instruments.
- *Other financial assets at fair value through profit or loss:* this category includes hybrid financial assets not held for trading that are measured entirely at fair value and financial assets not held for trading that are included in this category in order to obtain more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies ("accounting mismatches") that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis, or because a group of financial assets or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk

management or investment strategy, and information about the group is provided on that basis to the Combined Companies' key management personnel.

Financial instruments included in this category (and "Other financial liabilities at fair value through profit or loss") are permanently subject to an integrated and consistent system of measuring, managing and controlling risks and returns that enables all the financial instruments involved to be monitored and identified and allows the effective reduction of risk to be checked. Financial assets may only be included in this category on the date they are acquired or originated.

- *Available-for-sale financial assets:* this category includes debt instruments not classified as "Held-to-maturity investments", "Loans and receivables" or "Financial assets at fair value through profit or loss", and equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as "Financial assets held for trading" or as "Other financial assets at fair value through profit or loss".

- *Loans and receivables:* this category includes financing granted to third parties, based on their nature, irrespective of the type of borrower and the form of financing, including finance lease transactions in which the combined entities act as lessors.

  The combined Companies generally intend to hold the loans and credits granted by them until their final maturity and, therefore, they are presented in the combined balance sheet at their amortized cost (which includes the required adjustments to reflect estimated impairment losses).

- *Held-to-maturity investments:* this category includes debt instruments traded in an active market, with fixed maturity and with fixed or determinable payments, for which the Combined Companies have both the intention and proven ability to hold to maturity.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the combined balance sheet:

- *Cash and balances with Brazil Central Bank:* cash balances and balances receivable on demand relating to deposits with the Brazilian Central Bank.

- *Loans and receivables:* includes the debit balances of loans granted by the Combined Companies, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favor of the Combined Companies, such as checks drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organized markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originated in banking transactions and services, such as the collection of rentals and similar items:

  - *Loans and advances to credit institutions:* credit of any nature in the name of credit institutions.

  - *Loans and advances to customers:* includes the debit balances of all the remaining credit and loans granted by the Combined Companies, other than those represented by securities, including money market operations through central counterparties.

- *Debt instruments:* bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- *Other equity instruments:* financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, unless they are investments in subsidiaries, jointly controlled entities or associates. Investment fund units are included in this item.

- *Trading derivatives:* includes the fair value in favor of the Combined Companies of derivatives which do not form part of hedge accounting.

- *Hedging derivatives:* includes the fair value in favor of the Combined Companies of derivatives designated as hedging instruments in hedge accounting.

- *Investments:* includes the investments in the share capital of associates. *iv. Classification of financial liabilities for measurement purposes*

Financial liabilities are classified for measurement purposes into one of the following categories:

- *Financial liabilities held for trading (at fair value through profit or loss):* this category includes the financial liabilities issued for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not considered to qualify for hedge accounting and financial liabilities arising from the outright sale of financial assets purchased under resale agreements or borrowed ("short positions").

- *Other financial liabilities at fair value through profit or loss:* financial liabilities are included in this category when more relevant information is obtained, either because this eliminates or significantly reduces recognition or measurement inconsistencies ("accounting mismatches") that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Combined Companies' key management personnel.

- *Financial liabilities at amortized cost:* financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the funding-taking activities carried on by credit institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the combined balance sheet:

- *Deposits from Brazilian Central Bank:* deposits of any nature received from the Brazilian Central Bank.

- *Deposits from credit institutions:* deposits of any nature, including credit and money market operations received in the name of credit institutions.

- *Customer deposits:* includes all repayable balances received in cash by the Combined Companies, other than those represented by marketable securities, money market operations through central counterparties, subordinated liabilities and deposits from central banks and credit institutions.

- *Marketable debt securities:* includes the amount of bonds and other debt represented by marketable securities, other than subordinated liabilities.

- *Trading derivatives:* includes the fair value, with a negative balance for the Combined Companies, of derivatives which do not form part of hedge accounting.
- *Short positions:* includes the amount of financial liabilities arising from the outright sale of financial assets purchased under reverse repurchase agreements or borrowed.
- *Subordinated liabilities:* amount of financing received which, for the purposes of payment priority, ranks behind ordinary debt. This category also includes the financial instruments issued by the Combined Companies which, although equity for legal purposes, do not meet the requirements for classification as equity.
- *Other financial liabilities:* includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as doubtful.
- *Hedging derivatives:* includes the fair value of the Combined Companies' liability in respect of derivatives designated as hedging instruments in hedge accounting.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognized at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss are, adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each period-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their disposal, except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

The "fair value" of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

All derivatives are recognized in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognized as an asset and if the fair value is negative, they are recognized as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognized in "Gains/losses on financial assets and liabilities" in the combined income statement. Specifically, the fair value of standard financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure over the counter (OTC) derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques commonly used by the financial markets: "net present value" (NPV), option pricing models and other methods.

"Loans and receivables" and "Held-to-maturity investments" are measured at amortized cost using the effective interest method. "Amortized cost" is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and the cumulative amortization (taken to the income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortized cost furthermore includes any reductions for impairment or uncollectibility. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognized.

The "effective interest rate" is the discount rate that exactly matches the initial amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Equity instruments whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recognized represent, in all material respects, the Combined Companies' maximum exposure to credit risk at each reporting date. Also, the Combined Companies have received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under leasing and renting agreements, assets acquired under repurchase agreements, securities loans and derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortized cost, as defined above, except for those included under "Financial liabilities held for trading" and "Other financial liabilities at fair value through profit or loss" and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at 2007 year-end, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Combined Companies to determine their fair value:

	Thousands of Reais		
	2007		
	Published Price Quotations in Active Markets	Internal Models	Total
Financial assets held for trading	276,555	3,119,578	3,396,133
Other financial assets at fair value through profit or loss	—	146,636	146,636
Available-for-sale financial assets	33,242	12,745,782	12,779,024
Hedging derivatives (assets)	—	650,959	650,959
Financial liabilities held for trading	—	1,725,441	1,725,441
Hedging derivatives (liabilities)	—	5,210	5,210

Financial instruments at fair value, determined on the basis of public price quotations in active markets (Level 1), include government debt securities, private-sector debt securities, securitized assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set using its own internal models. These models use data based on observable market parameters as significant inputs (Level 2). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data and extrapolation techniques. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

The main techniques used at December 31, 2007 by the Combined Companies' internal models to determine the fair value of the financial instruments detailed in the foregoing table are as follows:

- In the valuation of financial instruments permitting static hedging (basically forwards and swaps) and in the valuation of loans and advances to customers, the "present value" method is used. Estimated future cash flows are discounted using the interest rate curves of the related currencies. The interest rate curves are generally observable market data.

- In the valuation of financial instruments requiring dynamic hedging (basically structured options and other structured instruments), the Black-Scholes model is normally used. Where appropriate, observable market inputs are used to obtain factors such as the bid-offer spread, exchange rates, volatility, correlation between indexes and market liquidity.

- In the valuation of certain financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors, the present value method (futures) and the Black-Scholes model (plain vanilla options) are used. The main inputs used in these models are basically observable market data, including the related interest rate curves, volatilities, correlations and exchange rates.

• In the case of linear instruments (e.g. credit risk and fixed-income derivatives), credit risk is measured using dynamic models similar to those used in the measurement of interest rate risk. In the case of non-linear instruments, if the portfolio is exposed to credit risk (e.g. credit derivatives), the joint probability of default is determined using the Standard Gaussian Copula model. The main inputs used to determine the underlying cost of credit of credit derivatives are quoted credit risk premiums and the correlation between the quoted credit derivatives of various issuers.

The fair value of the financial instruments arising from the aforementioned internal models takes into account, inter alia, the contract terms and observable market data, which include interest rates, credit risk, exchange rates, the quoted market price of raw materials and shares, volatility and prepayments. The valuation models are not significantly subjective, since these methodologies can be adjusted and gauged, as appropriate, through the internal calculation of fair value and the subsequent comparison with the related actively traded price.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Levels 2) at December 31, 2007:

	Thousands of Reais		
	Fair Values Calculated Using Internal Models	Valuation Techniques	Main Assumptions
ASSETS:			
Financial assets held for trading	**3,119,578**		
Debt and equity interests	811,105	Present Value Method	Observable market data
Trading derivatives	2,308,473		
Swaps	*1,962,814*	Present Value Method	Observable market data, yield curves and credit of the counterparty
Exchange rate options	*300,521*	Black-Scholes Model	Observable market data, yield curves and credit of the counterparty
Exchange rate futures	*45,138*	Present Value Method	Observable market data, yield curves and credit of the counterparty
Hedging derivatives	**650,959**		
Swaps	*650,959*	Present Value Method	Observable market data
Other financial assets at fair value through profit or loss	**146,636**		
Debt and equity interests	146,636	Present Value Method	Observable market data
Available-for-sale financial assets	**12,745,782**		
Debt and equity interests	12,745,782	Present Value Method	Observable market data

	Thousands of Reais		
	Fair Values Calculated Using Internal Models	Valuation Techniques	Main Assumptions
LIABILITIES:			
Financial liabilities held for trading	**1,725,441**		
Trading derivatives	1,725,441		
Swaps	*741,754*	Present Value Method	Observable market data
Exchange rate options	*879,613*	Black-Scholes Model	Observable market data, volatility
Interest rate and investment futures	*104,074*	Present Value Method	Observable market data
Hedging derivatives	**5,210**		
Swaps	*5,210*	Present Value Method	Observable market data
TOTAL	**14,932,304**		

The use of observable market data assumes that the markets in which the Combined Companies operate are functioning efficiently and, therefore, that these data are representative.

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognized in the combined income statement, distinguishing between those arising from the accrual of interest and similar items -which are recognized under "Interest and similar income" or "Interest expense and similar charges", as appropriate- and those arising for other reasons, which are recognized at their net amount under "Gains/losses on financial assets and liabilities".

Adjustments due to changes in fair value arising from Available-for-sale financial assets are recognized temporarily in equity under "Valuation adjustments — Available-for-sale financial assets". Items charged or credited to this account remain in the Combined Companies' equity until the related assets are derecognized, whereupon they are charged to the combined income statement.

v. Hedging transactions

The combined entities use financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Combined Companies entities' own positions and assets and liabilities ("hedging derivatives"); and iii) to obtain gains from changes in the prices of these derivatives ("trading derivatives").

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject ("fair value hedge");

b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions ("cash flow hedge");

c. The net investment in a foreign operation ("hedge of a net investment in a foreign operation").

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective ("prospective effectiveness").

b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position ("retrospective effectiveness").

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effective hedge was expected to be achieved and measured, provided that this is consistent with the Combined Companies' management of own risks.

The changes in value of financial instruments qualifying for hedge accounting are recognized as follows:

a. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items (attributable to the type of risk being hedged) are recognized directly in the combined income statement.

b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognized temporarily in equity under "Valuation adjustments — Cash flow hedges" until the forecast transactions occur, when it is recognized in the combined income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability. The ineffective portion of the change in value of hedging derivatives is recognized directly in the combined income statement.

c. The ineffective portion of the gains and losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation are recognized directly under "Gains/losses on financial assets and liabilities" in the combined income statement.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognized on the hedged item are transferred to profit or loss at the effective interest rate re-calculated at the date of hedge discontinuation. The adjustments must be fully amortized at maturity.

When cash flow hedges are discontinued, any cumulative gain or loss on the hedging instrument recognized in equity under "Valuation adjustments" (from the period when the hedge was effective) remains recognized in equity until the forecast transaction occurs at which time it is recognized in profit or loss, unless the transaction is no longer expected to occur, in which case any cumulative gain or loss is recognized immediately in profit or loss.

e) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

1. If the Combined Companies transfer substantially all the risks and rewards to third parties -unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitization of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognized and any rights or obligations retained or created in the transfer are recognized simultaneously.

2. If the Combined Companies retain substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognized and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognized:

    a. An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost.

    b. The income from the transferred financial asset not derecognized and any expense incurred on the new financial liability.

3. If the Combined Companies neither transfer nor retain substantially all the risks and rewards associated with the transferred financial asset — sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases-, the following distinction is made:

    a. If the transferor does not retain control of the transferred financial asset, the asset is derecognized and any rights or obligations retained or created in the transfer are recognized.

    b. If the transferor retains control, it continues to recognize the transferred financial asset for an amount equal to its exposure to changes in value and recognizes a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognized when the rights on the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognized when the obligations they generate have been extinguished or when they are acquired, with the intention either to cancel them or to resell them.

f) Regular way purchases of financial assets

Regular way purchases of financial assets are recognized on trade date. The assets are derecognized when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

g) Impairment of financial assets

i. Definition

A financial asset is considered to be impaired — and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.
- In the case of equity instruments, mean that their carrying amount cannot be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the combined income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognized impairment losses is recognized in the combined income statement for the period in which the impairment is reversed or reduced.

Balances are deemed to be impaired, and the interest accrual is suspended, when there are reasonable doubts as to their full recovery and/or the collection of the related interest for the amounts and on the dates initially agreed upon, after taking into account the guarantees received by the combined entities to secure (fully or partially) collection of the related balances. Collections relating to impaired loans and advances are used to recognize the accrued interest and the remainder, if any, to reduce the principal amount outstanding.

When the recovery of any recognized amount is considered unlikely, the amount is written off, without prejudice to any actions that the combined entities may initiate to seek collection until their contractual rights are extinguished.

ii. Debt instruments carried at amortized cost

The amount of an impairment loss incurred on a debt instrument measured at amortized cost is equal to the difference between its carrying amount and the present value of its estimated future cash flows, and is presented as a reduction of the balance of the asset adjusted.

In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument; including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The impairment loss takes into account the likelihood of collecting accrued interest receivable.
- The various types of risk to which each instrument is subject, and
- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

Specifically in regards to impairment losses resulting from materialization of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency when there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons.

The Combined Companies have certain policies, methods and procedures for covering its credit risk arising both from insolvency allocable to counterparties.

These policies, methods and procedures are applied in the granting, examination and documentation of debt instruments, and contingent liabilities and commitments, the identification of their impairment and the calculation of the amounts necessary to cover the related credit risk.

With respect to the allowance for loss arising from credit risk, the Combined Companies make the following distinction:

a. Specific allowance:

The Combined Companies use a proxy for specific allowance, as further explained below. These rules are used to calculate the minimum allowance requirements. We then evaluate the need for further provision, as considered necessary, following the requirements of IAS 39, based on our historical experience of impairment and other circumstances known at the time of assessment.

We classify our credit transactions according to their level of risk and the number of days such transaction is past due. Such credit classifications are determined in accordance with:

- The conditions of the debtor and any guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, administration, corporate governance and quality of internal controls, payments history, the sector in which they are active, contingencies and credit limits; and

- The characteristics of the transaction, such as its nature and purpose, type, sufficiency and level of liquidity of collateral and the total amount of the credit.

Our rating and risk management systems may be reviewed by both the Brazilian Central Bank and the Santander Group's internal auditors. Our management has not had any disputes with the Brazilian Central Bank or the Santander Group regarding our risk management operations.

b. Allowance for incurred losses not specifically identified:

The Combined Companies cover its losses inherent in debt instruments not measured at fair value through profit or loss and in contingent liabilities taking into account the historical experience of impairment and other circumstances known at the time of assessment. For these purposes, inherent losses are losses incurred at the reporting date, calculated using statistical methods that have not yet been allocated to specific transactions.

The Combined Companies use the concept of incurred loss to quantify the cost of the credit risk and include it in the calculation of the risk-adjusted return of its transactions.

Incurred loss is the expected cost of the credit risk of a transaction, that will manifest itself within a one year (business cycle) lead time from the balance sheet date considering the characteristics of the counterparty and the guarantees and collateral associated with the transaction.

The loss is calculated by using statistical models that consider the following three factors: "exposure at default", "probability of default" and "loss given default".

- Exposure at default (EAD) is the amount of risk exposure at the date of default by the counterparty.
- In accordance with IFRS, the exposure at default used for this calculation is the current exposure, as reported in the balance sheet.
- Probability of default (PD) is the probability of the counterparty failing to meet its principal and/or interest payment obligations. The probability of default is associated with the rating/scoring of each counterparty/transaction.

  PD is measured using a time horizon of one year; i.e. it quantifies the probability of the counterparty defaulting in the coming year. The definition of default used includes past-dues by 90 days or more and cases in which there is no default but there are doubts as to the solvency of the counterparty (subjective doubtful assets).
- Loss given default (LGD) is the loss arising in the event of default.

  LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account the guarantees/collateral associated with the transaction, the income and expenses associated with the recovery process, and also the timing thereof and the indirect costs arising from the recovery process.

This parameter does not considered downturn adjustments.

Our methodology for determining the loans allowance for incurred losses not specifically identified intends to identify the amount of incurred losses as of the balance sheet date of loans that have not yet been identified as impaired, but that we estimate based on our past history and specific facts that will manifest within a one year lead time period from the balance sheet date. The above demonstrates those loans were having problems as of the balance sheet date. That is, what we call inherent losses in the context of our internal models in which loan loss allowances are calculated.

The approach described above is used as a general rule. However, in certain cases, as a result of its particular characteristics, this approach is not applied and alternative approaches are used:

1. Low default portfolios

   In certain portfolios (credit institutions or large corporations) the number of defaults observed is very small or zero. In these cases, the Combined Companies opt to use the data contained in the credit derivative spreads to estimate the incurred loss discounted by the market and break it down into PD and LGD.

2. Top-down units

   In the exceptional cases in which the Combined Companies do not have sufficient data to construct a sufficiently robust credit risk measurement model, the incurred loss on the loan portfolios is estimated based on a top-down approximation in which the historically observed average cost of the loan portfolios is used as the best estimate of the incurred loss. As the credit models are developed and bottom-up measurements are obtained, the top-down measurements used for these units are gradually replaced.

iii. Debt or equity instruments classified as available for sale

The amount of the impairment losses on these instruments is the positive difference between their acquisition cost (net of any principal repayment or amortization in the case of debt instruments) and their fair value, less any impairment loss previously recognized in the combined income statement.

When there is objective evidence at the date of measurement of these instruments that the aforementioned differences are due to permanent impairment, they are no longer recognized in equity under "Valuation adjustments — Available-for-sale financial assets" and are reclassified, for the cumulative amount at that date, to the combined income statement.

If all or part of the impairment losses are subsequently reversed, the reversed amount is recognized, in the case of debt instruments, in the combined income statement for the year in which the reversal occurred (or in equity "Valuation adjustments — Available-for-sale financial assets" in the case of equity instruments).

iv. Equity instruments measured at cost

The impairment loss on equity instruments measured at cost is the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognized in the combined income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial assets under a non-optional resale (repurchase) agreement at a fixed price ("repos") are recognized in the combined balance sheet as financing granted (received), based on the nature of the debtor (creditor), under "Balances with the Brazilian Central Bank", "Loans and advances to credit institutions" or "Loans and advances to customers" ("Deposits from credit institutions" or "Customer deposits").

Differences between the purchase and sale prices are recognized as interest over the contract term.

i) Non-current assets held for sale

"Non-current assets held for sale" includes the carrying amount of individual items or disposal groups or items forming part of a business unit earmarked for disposal ("Discontinued operations"), whose sale in their present condition is highly probable and is expected to occur within one year from the reporting date. Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal. Specifically, property or other non-current assets received by the combined entities as total or partial settlement of their debtors' payment obligations to them are deemed to be non-current assets held for sale.

Non-current assets held for sale are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognized under "Gains/ (losses) on non-current assets held for sale not classified as discontinued operations" in the combined income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognized in the combined income statement up to an amount equal to the impairment losses previously recognized.

j) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the combined balance sheets and the average interest rates at 2008 and 2007 year-end is provided in Note 41.

k) Tangible assets

"Tangible assets" includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the Combined Companies including tangible assets received by the combined entities in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases- are presented at acquisition cost,

less the related accumulated depreciation and any impairment losses (net carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The tangible asset depreciation charge is recognized in the combined income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Buildings for own use	4%
Furniture	10%
Fixtures	10%
Office and IT equipment	20%
Leasehold improvements	10% or up to contractual maturity

The combined entities assess at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the combined entities recognize the reversal of the impairment loss recognized in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognized in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognized in the combined income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense in the period in which they are incurred.

l) Accounting for leases

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the combined entities act as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee plus the guaranteed residual value -which is generally the exercise price of the purchase option of the lessee at the end of the lease term- is recognized as lending to third parties and is therefore included under “Loans and receivables” in the combined balance sheet.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the combined entities act as the lessors, they present the acquisition cost of the leased assets under “Tangible assets” (see Note 12). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use and income from operating leases is recognized on a straight-line basis under “Other operating income” in the combined income statement.

When the combined entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to “Other general administrative expenses” in their combined income statements.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the combined entities. Only assets whose cost can be estimated reliably and from which the combined entities consider it probable that future economic benefits will be generated are recognized.

Intangible assets are recognized initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortization and any accumulated impairment losses.

i. Goodwill

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3, Business Combinations. Therefore:

(a) goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor's share of the associate's profits or losses.

(b) any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Goodwill — which is only recognized when it has been acquired for consideration- represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognized.

At the end of each reporting period goodwill is assessed whether there is any indication that an asset may be impaired (i.e. a reduction in its recoverable amount to below its carrying amount) and any impairment is written down with a charge to "Impairment losses on other assets (net) — Goodwill and other intangible assets" in the combined income statement.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

"Other intangible assets" includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

Other intangible assets can have an indefinite useful life -when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the combined entities — or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortized, but rather at the end of each reporting period the combined entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortized over those useful lives using methods similar to those used to depreciate tangible assets.

The intangible asset amortization charge is recognized under "Depreciation and amortization" in the combined income statement.

In both cases the combined entities recognize any impairment loss on the carrying amount of these assets with a charge to "Impairment losses on goodwill and other intangible assets" in the combined income statement. The criteria used to recognize the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for tangible assets (see Note 2-k).

Internally developed computer software

Internally developed computer software is recognized as an intangible asset if, among other requisites (basically the Combined Companies' ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Expenditure on research activities is recognized as an expense in the year in which it is incurred and cannot be subsequently capitalized.

n) Other assets

This item includes the balance of all prepayments and accrued income (excluding accrued interest), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity's favor, when this net amount is to be reported in the combined balance sheet, and the amount of any other assets not included in other items.

o) Other liabilities

"Other liabilities" includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

p) Provisions and contingent assets and liabilities

The directors of the combined entities, in preparing their respective financial statements, made a distinction between:

- *Provisions:* credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the combined entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.
- *Contingent liabilities:* possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the combined entities. They include the present obligations of the combined entities when it is not probable that an outflow of resources embodying economic benefits will be required to settle them.
- *Contingent assets:* possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of events beyond the control of the Combined Companies. Contingent assets are not recognized in the combined balance sheet or in the combined income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Combined Companies' financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognized in the combined financial statements, but must rather be disclosed in the notes.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognized. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows:

- *Provisions for pensions and similar obligations:* includes the amount of all the provisions made to cover post-employment benefits, including obligations to early retirees and similar obligations.
- *Provisions for legal obligations, commitments, provisions for taxes and other legal contingencies, and other provisions:* include the amount of the provisions recognized to cover tax and legal contingencies and labor and civil litigation and the other provisions recognized by the combined entities.

q) Recognition of income and expenses

The most significant criteria used by the Combined Companies to recognize its income and expenses are summarized as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognized on an accrual basis using the effective interest method. Dividends received from other companies are recognized as income when the combined entities' right to receive them arises.

However, the recognition of accrued interest in the combined income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than two months past due. This interest is recognized as income, when collected, as a reversal of the related impairment losses.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognized in the combined income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognized when paid.
- Those arising from transactions or services that are performed over a period of time are recognized over the life of these transactions or services.
- Those relating to services provided in a single act are recognized when the single act is carried out.

iii. Non-finance income and expenses

These are recognized for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognized for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination and application fees, are accrued and recognized in income over the term of the loan. In the case of loan origination fees, the portion relating to the associated direct costs incurred in the loan arrangement is recognized immediately in the combined income statement.

r) Financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the entity, etc.

The Combined Companies initially recognize the financial guarantees provided on the liability side of the combined balance sheet at fair value, which is generally the present value of the fees, commissions and similar interest receivable from these contracts over the term thereof, and simultaneously the Combined Companies recognize, on the asset side of the combined balance sheet, the amount of the fees, commissions and interest received at the start of the transactions and the amounts receivable at the present value of the fees, commissions and interest receivable.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments measured at amortized cost.

If a specific provision is required for financial guarantees, the related unearned commissions recognized under "Financial liabilities at amortized cost — Other financial liabilities" in the combined balance sheet are reclassified to the appropriate provision.

s) Assets under management and investment and pension funds managed by the Combined Companies

Assets owned by third parties and managed by the combined entities are not presented on the face of the combined balance sheet. Management fees are included in "Fee and commission income" in the combined income statement. Note 41-b contains information on the third-party assets managed by the Combined Companies.

The investment funds and pension funds managed by the combined entities are not presented on the face of the Combined Companies' balance sheet since the related assets are owned by third parties. The fees and commissions earned in the year for the services rendered by the Combined Companies entities to these funds (asset management and custody services) are recognized under "Fee and commission income" in the combined income statement.

t) Post-employment benefits

The Combined Companies have undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, the benefits and indemnity payments payable, the contributions to employee welfare systems for early retirees and the post-employment welfare benefits.

The Combined Companies' post-employment obligations to its employees are deemed to be "defined contribution plans" when the Combined Companies makes pre-determined contributions (recognized in

"Personnel expenses" in the combined income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as "defined benefit plans" (see Note 21).

Defined contribution plans

The contributions made in this connection in each year are recognized under "Personnel expenses" in the combined income statement. The amounts not yet contributed at each year-end are recognized, at their present value, under "Provisions — Provisions for pensions and similar obligations" on the liability side of the combined balance sheet.

Defined benefit plans

The Combined Companies recognize under "Provisions — Provisions for pensions and similar obligations" on the liability side of the combined balance sheet (or under "Other assets" on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets and of the net unrecognized cumulative actuarial gains and/or losses disclosed in the valuation of these obligations, which are deferred using a corridor approach, and net of the past service cost, which is deferred over time, as explained below.

"Plan assets" are defined as those that will be directly used to settle obligations and that meet the following conditions:

- They are not owned by the combined entities, but by a legally separate third party that is not a party related to the Combined Companies.
- They can only be used to pay or finance post-employment benefits and cannot be returned to the combined entities unless the assets remaining in the plan are sufficient to meet all obligations of the plan and of the entity relating to current or former employee benefits, or to reimburse employee benefits already paid by the Combined Companies.

"Actuarial gains and losses" are defined as those arising from differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions. The Combined Companies use, on a plan-by-plan basis, the corridor method and recognizes in the combined income statement using the expected remaining useful life of the remaining employees.

The "past service cost" -which arises from changes to current post-employment benefits or from the introduction of new benefits- is recognized on a straight-line basis in the combined income statement over the period from the time the new commitments arise to the date on which the employee has an irrevocable right to receive the new benefits.

Post-employment benefits are recognized in the combined income statement as follows:

- Current service cost — defined as the increase in the present value of the obligations resulting from employee service in the current period, under "Personnel expenses".
- Interest cost — defined as the increase during the year in the present value of the obligations as a result of the passage of time-, under "Interest expense and similar charges". When obligations are presented

on the liability side of the combined balance sheet, net of the plan assets, the cost of the liabilities recognized in the income statement relates exclusively to the obligations recognized as liabilities.

- The expected return on plan assets and the gains or losses on the value of the plan assets under "Interest and similar income".
- The actuarial gains and losses calculated using the corridor approach and the unrecognized past service cost, under "Provisions (net)" in the combined income statement.

u) Other long-term employee benefits

"Other long-term employee benefits", defined as obligations to early retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that all past service costs and actuarial gains and losses are recognized immediately (see Note 21).

v) Termination benefits

Termination benefits are recognized when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

w) Income taxes

Income tax is calculated at the rate of 15% plus a 10% surtax; social contribution tax is calculated at the rate of 15% (9% in 2007 and the period from January 1st to April 30, 2008) for financial institutions, and for non-financial companies the social contribution tax rate is 9%, after adjustments determined by tax legislation.

In accordance with the current regulation, the expected realization of the Combined Companies' tax credits, as shown in Note 23, is based on the projection of future income and a technical study.

The expense for corporation income tax is recognized in the combined income statement, except when it results from a transaction recognized directly in equity, in which case the tax effect is also recognized in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognized in the combined income statement.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled.

"Tax assets" includes the amount of all tax assets, which are broken down into "current" -amounts of tax to be recovered within the next twelve months- and "deferred" -amounts of tax to be recovered in future years, including those arising from unused tax losses or tax credits.

"Tax liabilities" includes the amount of all tax liabilities (except provisions for taxes), which are broken down into "current" -the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months- and "deferred" -the amount of income tax payable in future years.

Deferred tax liabilities are recognized in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Combined Companies are able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognized for temporary differences to the extent that it is considered probable that the combined entities will have sufficient future taxable profits against which the deferred tax assets can be utilized, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit or accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognized if it is considered probable that the combined entities will have sufficient future taxable profits against which they can be utilized.

Income and expenses recognized directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities recognized are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

PIS and COFINS taxes have been computed at a combined rate of 4.65% on certain gross revenues and expenses. Financial institutions may deduct financial expenses in determining the PIS/COFINS tax basis. PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses), therefore and accordingly to IAS 12 it is recorded as income taxes.

x) *Combined cash flow statements*

The following terms are used in the combined cash flow statements with the meanings specified:

- *Cash flows:* inflows and outflows of cash and cash equivalents, which are short-term (with a maturity of less than 90 days of date of acquisition), highly liquid investments that are subject to an insignificant risk of changes in value.
- *Operating activities:* the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- *Investing activities:* the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- *Financing activities:* activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

In preparing the combined cash flow statement, short-term highly liquid investments that are subject to an insignificant risk of changes in value were classified as "Cash and cash equivalents". Accordingly, the Combined Companies classify as cash and cash equivalents the balances recognized under "Cash and balances with the Brazilian Central Bank" in the combined balance sheet.

y) Combined statement of changes in equity

The combined statement of changes in equity presented in these combined financial statements shows the total changes in combined equity in the year. This information is in turn presented in two statements: the combined statement of recognized income and expense and the combined statement of changes in equity. The main characteristics of the information contained in the two parts of the statement are explained below:

Combined statement of recognized income and expense

This part of the combined statement of changes in equity presents the income and expenses generated by the Combined Companies as a result of its business activity in the year, and a distinction is made between the income and expenses recognized in the combined income statement for the year and the other income and expenses recognized directly in combined equity.

Accordingly, this statement presents:

a) Combined profit for the year.

b) The net amount of the income and expenses recognized temporarily in combined equity under "Valuation Adjustments".

c) The net amount of the income and expenses recognized definitively in combined equity.

d) The income tax incurred by the items indicated in b) and c) above.

e) Total combined recognized income and expense, calculated as the sum of the items in a) to d) above, presenting separately the amount attributable to the Parent and the amount relating to minority interests.

The amount of the income and expenses relating to entities accounted for using the equity method recognized directly in equity is presented in this statement, irrespective of its nature, under "Entities accounted for using the equity method".

Statement of changes in equity

This part of the statement of changes in equity presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the combined equity items, and any changes are grouped together on the basis of their nature into the following items:

a) Adjustments due to changes in accounting policy and adjustments made to correct errors: include the changes in combined equity arising as a result of the retrospective restatement of the balances in the combined financial statements due to changes in accounting policy or to the correction of errors.

b) Income and expense recognized in the year: includes, in aggregate form, the total of the aforementioned items recognized in the combined statement of recognized income and expense.

c) Other changes in equity: includes the remaining items recognized in equity, distribution of profit, transactions involving own equity instruments, transfers between equity items and any other increases or decreases in combined equity.

3. Change of control

On July 24, 2008, Banco Santander Spain acquired the majority control of ABN AMRO Real Group in Brazil. On August 29, 2008, as further discussed on Note 26, an Extraordinary Stockholders' Meeting approved an increase in Banco Santander's total capital, related to the merger of shares of Banco Real and AAB Dois Par held by Banco Santander Spain. Additionally, the Bank, in a share exchange transaction, exchanged all of the remaining shares of Banco Real and AAB Dois Par held by minority holders for shares of the Bank. As a result of the contribution: (a) Banco Real and AAB Dois Par were converted into wholly-owned subsidiaries of Banco Santander, according to article 252 of Law No. 6404/76; (b) Banco Santander's capital was increased based on the fair value of the shares of Banco Real and AAB Dois Par from R$9,131,448 thousand to R$47,152,201 thousand and an additional R$900,000 thousand of reserves, and (c) shares were issued by Banco Santander and delivered to the respective stockholders of Banco Real and AAB Dois Par.

This operation simplifies the equity structure of the companies of the Santander Group in Brazil and enabled the stockholders of Banco Real to become stockholders of a publicly traded company and have access to the current dividend policy of the Bank. This new structure also allows for a reduction of administrative costs, especially those related to legal and regulatory requirements.

The contribution of Real to the Bank was approved by the Brazilian Central Bank ("Bacen") in January, 2009.

4. Cash and balances with the Brazilian Central Bank

	Thousands of Reais 2007
Cash	1,781,775
Brazilian Central bank compulsory deposits*	9,167,064
Cash and balances with the Brazilian Central Bank	**10,948,839**

(*) Brazilian Central Bank compulsory deposits relate to a minimum balance financial institutions are required to maintain with the Brazilian Central Bank based on a percentage of deposits received from third parties.

5. Loans and advances to credit institutions

The breakdown, by classification, type and currency, of the balances of "Loans and advances to credit institutions" in the combined balance sheet is as follows:

	Thousands of Reais
	2007
Classification:	
Loans and receivables	12,786,701
	12,786,701
Type:	
Time deposits	3,392,562
Reverse repurchase agreements	6,128,942
Other accounts(1)	3,265,197
	12,786,701
Currency:	
Brazilian Real	11,442,063
US dollar	1,245,738
Other currencies	98,900
	12,786,701

(1) includes, primarily, foreign currency investments and escrow deposits.

Note 41d contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

6. Debt instruments

The breakdown, by classification, type and currency, of the balances of "Debt instruments" is as follows:

	Thousands of Reais
	2007
Classification:	
Financial assets held for trading	811,105
Other financial assets at fair value through profit or loss	146,636
Available-for-sale financial assets	12,745,782
	13,703,523
Type:	
Brazilian government debt securities	13,000,035
Other debt securities	717,205
Impairment losses	(13,717)
	13,703,523
Currency:	
Brazilian Real	8,792,225
US dollar	4,911,298
	13,703,523

At December 31, 2007, debt securities totaling R$67,803 thousands had been assigned to repurchase agreements, R$6,340,389 thousands to compulsory deposits in Brazilian Central Bank, R$5,300,566 thousands to guarantee BM&F Bovespa derivative transactions and R$1,994,765 thousands to escrow deposits and other guarantee.

Note 41d contains a detail of the residual maturity periods of available-for-sale financial assets and of loans and receivables and of the related average interest rates.

7. Other equity instruments

a) Breakdown

The breakdown, by classification and type, of the balances of "Other equity instruments" is as follows:

	Thousands of Reais
	2007
Classification:	
Financial assets held for trading	276,555
Available-for-sale financial assets	33,242
	309,797
Type:	
Shares of Brazilian companies	31,109
Shares of foreign companies	66
Investment fund units and shares	278,622
	309,797

b) Changes

The changes in the balance of "Other equity instruments — Available-for-sale financial assets", Gross of allowances for impairment losses, were as follows:

	Thousands of Reais
	2007
Balance at beginning of year	311,434
Net additions/(disposals)	(291,117)
Other	(10,107)
Valuation adjustments	23,032
Balance at end of year	**33,242**

8. Trading derivatives (assets and liabilities)

Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Combined Companies is as follows (see Note 41a):

	Thousands of Reais	
	2007	
	Debit Balance	Credit Balance
Interest rate risk	1,960,408	738,246
Foreign currency risk	348,065	987,195
	2,308,473	**1,725,441**

9. Loans and advances to customers

a) Breakdown

The breakdown, by classification, of the balances of "Loans and advances to customers" in the combined balance sheets is as follows:

	Thousands of Reais
	2007
Loans and receivables	64,522,996
Of which	
Loans and receivables at amortized cost	*67,630,346*
Impairment losses	*(3,107,350)*
Loans and advances to customers, Net	**64,522,996**
Loans and advances to customers, Gross	**67,630,346**

Note 41d contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

There are no loans and advances to customers of material amounts without fixed maturity dates.

b) Detail

Following is a detail, by loan type and status, borrower sector and interest rate formula, of the loans and advances to customers, which reflects the Combined Companies' exposure to credit risk in its core business, gross of impairment losses:

	Thousands of Reais
	2007
Loan type and status:	
Commercial credit	180,804
Secured loans	18,217,401
Other term loans	38,566,356
Finance leases	5,356,504
Receivable on demand	2,109,467
Impaired assets	3,199,814
	67,630,346
Borrower sector:	
Public sector — Brazil	131,311
Households	2,901,226
Private person	27,596,119
Manufacturing	12,777,866
Services	11,874,563
Other sectors	12,349,261
	67,630,346
Interest rate formula:	
Fixed interest rate	49,387,424
Floating rate	18,242,922
	67,630,346

c) Impairment losses

The changes in the allowances for the impairment losses on the balances of "Loans and receivables — Loans and advances to customers" and "Loans and receivables — Loans and advances to credit institutions" (see Note 5) were as follows:

	Thousands of Reais
	2007
Balance at beginning of year	2,531,386
Impairment losses charged to income for the year (Net of recoveries)	2,877,906
Write-off of impaired balances against recorded impairment allowance	(2,301,942)
Balance at end of year	**3,107,350**

For the period January 1st to August 29, 2008 and 2007, Impairment losses charged to income for the year amounted to R$2,470,175 thousands and R$1,838,130 thousand, respectively. Previously written-off assets recovered in 2007 amounted to R$665,142 thousands. Taking into account these amounts and those recognized in "Impairment losses charged to income for the year" in the foregoing table, impairment losses on "Loans and receivables" amounted to R$3,543,048 thousands in 2007.

d) Impaired assets

The detail of the changes in the balance of the financial assets classified as "Loans and receivables — loans and advances to customers" and considered to be impaired due to credit risk is as follows:

	Thousands of Reais 2007
Balance at beginning of year	2,501,763
Net additions	2,999,993
Written-off assets	(2,301,942)
Balance at end of year	**3,199,814**

This amount, after deducting the related allowances, represents the Combined Companies' best estimate of the fair value of the impaired assets.

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at December 31, 2007, classified by age of the oldest past-due amount:

	Thousands of Reais						
		With Balances Past Due by					
	With No Past-Due Balances or Less Than 3 Months Past Due	3 to 6 Months	6 to 12 Months	12 to 18 Months	18 to 24 Months	More Than 24 Months	Total
December 31, 2007	966,472	917,850	1,288,332	22,368	1,281	3,511	3,199,814

10. Non-current assets held for sale

At December 31, 2007, the total amount of Non-current assets held for sale related to foreclosed assets.

Tangibles assets received in payment and in lieu of those loans that were disabled, which are intended to be sold within one year through the completion of auctions.

11. Investments in associates

a) Breakdown

The breakdown, by company, of the balance of "Investments in associates" (see Note 2-b) is as follows:

	Thousands of Reais				
	Participation %	Investments	Results of Investments		
	2007	2007	29/08/2008	29/08/2007	31/12/2007
Cia. Brasileira de Securitização — CIBRASEC(1)	4.55%	5,185	—	213	—
Tecnologia Bancária — TECBAN(1)	8.96%	15,649	(919)	(613)	(927)
Cia. Brasileira de Soluções de Serviços CBSS(1)	15.32%	11,962	6,951	3,525	5,476
Celta Holdings S.A.	26.00%	32,033	(1,233)	(1,054)	(2,154)
Diamond Finance Promotora de Vendas S.A.	25.50%	518	—	319	687
Interchange Serviços S.A.	25.00%	14,119	1,375	1,205	2,102
Cia. Brasileira de Meios de Pagamento — VISANET(1)	14.38%	86,566	149,597	82,388	126,883
Marlim Participações S.A.(1)	14.56%	7,089	792	(2,105)	(1,761)
Real Tokio Marine Vida e Previdência S.A.(2)	49.99%	86,910	33,736	33,640	39,588
Cia. De Arrendamento Mercantil Renault do Brasil	39.77%	3,910	(92)	361	455
Cia. de Crédito, Financiamento e Investimento Renault	39.55%	69,146	7,290	9,618	11,055
Other	—	215	(4,258)	9,221	1,204
		333,302	**193,239**	**136,718**	**182,608**

(1) Although the participations were less than 20%, the Bank presumed significant influence on such participations, which was evidenced due to the Bank's representation on the board of directors of investees, participation in policy-making process, including participation in decisions about dividends and material transactions between the bank and the investees

b) Changes

The changes in the balance of this item were as follows:

	Thousands of Reais
	2007
Balance at beginning of year	311,051
Acquisitions and capital increases	2,244
Disposals and capital reductions	(12,741)
Effect of equity accounting	182,608
Dividends Received	(162,498)
Other changes	12,638
Balance at end of year	**333,302**

c) Impairment losses

No impairment was accounted with respect to investments in associates in 2008 or 2007.

d) Other disclosures

Following is a summary of the financial information on the associates (obtained from the information available at the reporting date). Note that none of the associates had a fiscal year different from the Bank.:

	Thousands of Reais
	2007
Total assets	11,260,059
Total liabilities	9,621,303
Total profit	**1,016,883**
Total Revenue	**4,341,661**

12. Tangible assets

Tangible assets of the Combined Companies relate to property, plant and equipment for own use. The Combined Companies do not have tangible assets held as investment property nor leased out under operating leases. Additionally, the Combined Companies are not a part of any capital lease contracts during the period January 1st to August 29, 2008 and 2007, and during the fiscal year ended December 31, 2007.

The detail, by class of asset, of the tangible assets in the combined balance sheet is as follows:

	Thousands of Reais			
	Cost	Accumulated Depreciation	Impairment Losses	Net Balance
Land and buildings	484,032	(198,324)	(19,006)	266,702
IT equipment and fixtures	594,818	(435,986)	—	158,832
Furniture and vehicles	1,096,126	(562,024)	—	534,102
Construction in progress and other items	91,361	—		91,361
Balances at December 31, 2007	**2,266,337**	**(1,196,334)**	**(19,006)**	**1,050,997**

Changes

The changes in "Tangible assets" in the combined balance sheet were as follows:

	Thousands of Reais
	2007
Cost:	
Balance at beginning of the year	2,017,870
Additions/Disposals (net)	241,983
Transfers and other changes	8,259
Exchange differences and other items (net)	(1,775)
Balance at end of the year	**2,266,337**
Accumulated depreciation:	
Balance at beginning of the year	(1,067,639)
Disposals	57,028
Transfers and other changes	(1,313)
Charge for the year	(184,768)
Exchange differences and other items	358
Balance at end of the year	**(1,196,334)**

	Thousands of Reais
	2007
Impairment losses:	
Balance at beginning of the year	(18,092)
Impairment charge for the year	(914)
Balance at end of the year	**(19,006)**
Tangible assets, net:	**1,050,997**

For the period January 1st to August 29, 2008 and 2007, depreciation expense was R$140,381 thousands and R$119,628 thousand, respectively. The depreciation expense has been included in the line item "Depreciation and amortization" in the income statement.

13. Intangible assets — Goodwill

The breakdown of "Goodwill", based on the companies giving rise thereto is as follows:

	Thousands of Reais 2007
Banco Real	203,379
Sudameris Group	368,445
Other	9,912
Balance at end of year(1)	**581,736**

(1) Refers to goodwill on acquisition of investments, represented by companies subsequently merged, based on expected future earnings

The changes in "Goodwill" were as follows:

	Thousands of Reais 2007
Balance at beginning of year	583,925
Other	(2,189)
Balance at end of year	**581,736**

At the end of each reporting period it is assessed whether there is any indication that an asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, impairment testing is performed annually and comprises a comparison of the carrying amount of the cash-generating unit with its recoverable amount.

Based on the foregoing, and in accordance with the estimates, projections and measurements available to the Combined Companies' directors up to August 29, 2008 and for the year 2007, the Combined Companies did not recognize impairment losses.

14. Intangible assets — Other intangible assets

The breakdown of the balance of "Other intangible assets" is as follows:

	Estimated Useful Life	Thousands of Reais 2007
With finite useful life:		
IT developments	3 years	624,635
Customer relationship	(1)	261,832
Other assets		164,601
Impairment losses		(425,850)
		625,218

(1) Includes Banco Real retail, middle market clients and core deposits customer relationship and exclusivity contracts for providing banking services (accrued payments related to the commercial partnership contracts with the private and public sectors to assure exclusivity for banking services of payroll credit processing and payroll loans, maintenance of collection portfolio, supplier payment services and other banking services) Banco Real customer relationship is amortized in 10 years and exclusivity contracts for provision of banking services over the term of the respective agreements

The changes in "Other intangible assets" were as follows:

	Thousands of Reais 2007
Balance at beginning of year	532,007
Additions/Disposals (net)	254,686
Amortization	(154,500)
Exchange differences and other changes (net)	(6,975)
Balance at end of year	**625,218**

Amortization expense, which has been included in the line item "Depreciation and Amortization" in the income statement, was R$147,655 thousands and R$91,353 thousands For the period January 1st to August 29, 2008 and 2007, respectively.

No impairment losses were recognized for the period January 1st to August 29, 2008 and 2007 and for the fiscal year ended December 31, 2007.

15. Other assets

The breakdown of the balance of "Other assets" is as follows:

	Thousands of Reais
	2007
Prepayments and accrued income	178,840
Tax incentives	151,038
Other receivables	655,318
	985,196

16. Deposits from credit institutions

The breakdown, by classification, counterparty, type and currency, of the balances of these items is as follows:

	Thousands of Reais
	2007
Classification:	
Financial liabilities at amortized cost	26,347,431
Type:	
Demand deposits	59,028
Time deposits	11,603,436
Repurchase agreements	14,683,149
Other	1,818
	26,347,431
Currency:	
Reais	21,560,436
US dollar	3,051,794
Other currencies	1,735,201
	26,347,431

Note 41d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

17. Customer deposits

The breakdown, by classification, geographical area and type, of the balance of “Customer deposits” is as follows:

	Thousands of Reais
	2007
Classification:	
Financial liabilities at amortized cost	55,365,410
	55,365,410
Geographical area:	
Brasil	55,136,119
United States and Puerto Rico	229,291
	55,365,410
Type:	
Demand deposits —	
Current accounts	9,469,767
Savings accounts	10,671,509
Fixed-term deposits	33,134,165
Discount deposits	44,743
Repurchase agreements	2,045,226
	55,365,410

Note 41d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

18. Marketable debt securities

The breakdown, by classification and type, of the balance of "Marketable debt securities" is as follows:

	Thousands of Reais 2007
Classification:	
Financial liabilities at amortized cost	3,001,419
	3,001,419
Type:	
Bonds and debentures outstanding	1,932,926
Notes and other securities	1,068,493
Of which	
Real estate credit notes — LCI	650,075
Total	**3,001,419**

At December 31, 2007, none of these issues was convertible into Combined Companies shares or granted privileges or rights which, in certain circumstances, make them convertible into shares.

Note 41d contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates in each year.

The breakdown, by currency of issue, of the balance of this account is as follows:

Currency of Issue	Thousands of Reais 2007	Annual Interest Rate(%)
Brazilian Real	1,963,145	16.20%
US dollar	1,038,274	3.00%
Balance at end of year	**3,001,419**	

The changes in "Marketable debt securities" were as follows:

	Thousands of Reais 2007
Balance at beginning of year	2,825,696
Bond issues	2,753,840
Exchange differences	(285,045)
Redemption	(2,734,533)
Interest	441,461
Balance at end of year	**3,001,419**

For the period January 1st to August 29, 2008 and 2007, Interest income was R$224,622 thousands and R$250,111 thousands, respectively. The interest income has been included in the line item "Interest expense and similar charges" in the income statement.

19. Subordinated liabilities

a) Breakdown

The detail of the balance of "Subordinated liabilities" is as follows:

	Issuance	Maturity	Amount	Interest Rate	Thousands of Reais 2007 Total
Floating Rate Notes	November-99	November-09	US$170 million	Libor + 4.5%	122,205
Floating Rate Notes	November-99	November-09	US$ 30 million	Libor + 4.5%	21,549
Subordinated Certificates of Deposit(1)	January-07	January-13	R$ 50 million	104.0% CDI	56,019
Subordinated Certificates of Deposit(1)	January-07	January-13	R$ 250 million	104.0% CDI	279,668
Subordinated Certificates of Deposit(1)	January-07	January-14	R$ 250 million	104.5% CDI	279,818
Subordinated Certificates of Deposit(1)	July-07	July-14	R$ 616 million	104.5% CDI	645,206
Subordinated Certificates of Deposit(1)	July-07	July-14	R$ 269 million	104.5% CDI	281,466
Subordinated Certificates of Deposit(1)	August-07	August-13	R$ 300 million	100.0% CDI + 0.43% a.a.	313,269
Total					**1,999,200**

(1) Subordinated certificates of deposits issued by the Bank with yield paid at the end of the term together with the prinicipal

The detail, by currency of issue, of the balance of "Subordinated liabilities" is as follows:

Currency of Issue	Thousands of Reais 2007	Average Interest Rate (%)
Reais	1,855,446	11.61%
US dollar	143,754	9.22%
Balance at end of year	**1,999,200**	**11.44%**

Note 41d contains a detail of the residual maturity periods of subordinated liabilities at each year/period-end and of the related average interest rates in each year.

20. Other financial liabilities

The breakdown of the balances of these items is as follows:

	Thousands of Reais 2007
Clearing houses	1,153
Tax payables	294,288
Unsettled financial transactions	1,342,281
Credit card obligations	2,071,860
Other financial liabilities	249,045
Total	**3,958,627**

Note 41d contains a detail of the residual maturity periods of other financial assets and liabilities at each year/period-end.

21. Provisions

a) Breakdown

The breakdown of the balance of "Provisions" is as follows:

	Thousands of Reais 2007
Provisions for pensions and similar obligations	259,084
Provisions for commitments and other provisions	3,184,193
Provisions	**3,443,277**

b) Changes

The changes in "Provisions" were as follows:

	Thousands of Reais 2007		
	Pensions	Provisions for Legal Obligations and Commitments	Total
Balances at beginning of year	165,487	2,764,383	2,929,870
Net inclusion of entities in the Bank	—	9,813	9,813
Additions charged to income:			
Interest expense and similar charges (Note 30)	17,589	—	17,589
Personnel Expenses (Note 37)	682	—	682
Additions to provisions	81,671	846,640	928,311
Payments to external funds	(6,345)	(232,213)	(238,558)
Transfers, exchange differences and other changes	—	(204,430)	(204,430)
Balances at end of year	**259,084**	**3,184,193**	**3,443,277**

For the period January 1st to August 29, 2008 and 2007, additions to provisions amounted to R$472,139 thousands and R$302,866 thousands, respectively. The addition to provision has been included in the line item "Provisions (net)" in the income statement.

c) Provisions for pensions and similar obligations

i. Supplemental Pension Plan

The Combined Companies and its subsidiaries sponsor private pension entities and plans for the purpose of providing retirement and pension benefits that supplement those provided by government, as defined in the basic regulations of each plan.

- *Holandaprevi:*

Defined benefit plan, started in 1999, funded mainly by Banco Real and managed by Holandaprevi Sociedade de Previdência Privada.

- *Previban:*

Defined benefit plan, managed by Previban — Previdência Privada Paraiban, sponsored by Banco Real, whose participants are the former employees of Banco da Paraíba S.A. — Paraiban. This plan is closed to new entrants and is in process of withdrawal of sponsoring.

- *Bandeprev:*

Defined benefit plan, sponsored by Banco de Pernambuco S.A. — BANDEPE and Banco Real, managed by Bandeprev — Bandepe Previdência Social. The plans are divided into basic plan and special plan, with different eligibility requirements, contributions and benefits by subgroups of participants. Both plans are closed to new entrants. As a result of the spin-off of Banco de Pernambuco S.A. — Bandepe's operations and subsequent merger into Banco Real, the employees of Bandepe were transferred to Banco Real on May 1, 2006.

- *FASASS:*

Three plans administered by Fundação América do Sul de Assistência e Seguridade Social, sponsored by Banco Comercial e de Investimento Sudameris S.A , having the following characteristics:

- Supplementary retirement pension plan structured in the form of defined benefits, which has been in the process of being cancelled since July 1, 1998;
- Benefit Plan II, established in the form of defined benefits on July 1, 1998 offering death and disability coverage. The plan has not accepted new members since July 8, 1999;
- Benefit Plan III, established in the form of defined benefits on July 1, 1998. The plan has not accepted new members since July 8, 1999.

This plan is closed to new entrants and is in process of withdrawal of sponsoring.

ii. Actuarial Techniques

The amount of the defined benefit obligations was determined by independent actuaries using the following actuarial techniques:

- *Valuation method:*

Projected unit credit method, which sees each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

- *Nominal discount rate for actuarial obligation:*
  - Bandeprev, Holandaprevi, Previban and FASASS — 10.3%.
- *Expected rate of return on plan assets:*
  - Bandeprev — 12.1%, FASASS 13%, Holandaprevi and Previban — 11.8%.
- *Estimated long-term inflation rate and estimated salary and benefit increase rate:*
  - Bandeprev, Holandaprevi and Previban salary growth of 4.0% and inflation of 5%.
  - Previban, FASASS — null growth as they do not have active participants
- *General mortality biometric table:*

  Holandaprevi and Bandeprev — AT-2000 segregated by gender.

  Previban — UP-94 segregated by gender.
- *Disability biometric table and disability mortality table:*

  Bandeprev, Holandaprevi and Previban — Mercer Disability and Disability mortality table: IAPB57.

- *Expected Turnover table:*

  Holandaprevi segregated by age according to the rates below, by minimum wage (MW) cohorts: up to 10 MWs — 10% to 7%; from 10 MWs up to 20 MWs — 9% to 6%; and above 20 MWs — 8% to 5%.

  Bandeprev follows the cohorts: up to 10 MWs =0.45/(length of service+1); from 10 MWs to 20 MWs=0 30/(length of service +1); and above 20 MWs=0.15/ (length of service +1).

  Previban is null, as it does not have active participants.

- *Probability of retirement: 100% upon first eligibility.*

iii. Health and Dental Care Plan

- *Holandaprevi's retirees*

Holandaprevi's retirees' health care plan is a lifetime benefit and receives a subsidy of 30% of the basic plan cost from the sponsor, payable only to beneficiaries entitled to the benefits through December 31, 2002. Costing is made directly by the sponsor.

- *Former employees of Banco Real S.A. (retiree by Circulares)*

The health care plan of the former employees of Banco Real is a lifetime benefit and receives a subsidy of 90% of the basic plan cost from the sponsor.

- *Bandeprev's retirees*

The health care plan of Bandeprev's pension plan beneficiaries is a lifetime benefit, for which the Combined Companies are responsible for defraying 50% of the benefits of employees retired before the date the sponsor Banco de Pernambuco S A. — Bandepe was privatized and 30% of the benefits of employees retired after privatization.

- *Officer with lifetime benefits*

Lifetime health care benefit granted to former officers of Banco Sudameris Brasil S.A. who held an officer position at Banco Sudameris Brasil S.A. for a period of ten years or more (closed group). With the merger of Banco Sudameris Brasil S.A., Banco Real became responsible for ensuring the benefit.

- *Life insurance for Banco Real's retirees*

Life insurance policy for former employees of Banco Real. Upon the death of the beneficiary, his/her dependent receives a lump-sum death benefit and, upon the death of the beneficiary's spouse, the beneficiary receives 50% of such amount. Banco Real subsidizes 45% of the total premium (closed group).

- *Free clinic*

The health care plan "free clinic" is a lifetime plan offered to the retirees who have contributed to Fundação Sudameris for at least 25 years and is funded by the users. The plan is offered only for hospitalization in wards.

• *Employees retired through FASASS*

Until September 2004, FASASS retirees were members of Plano de Assistência Médica do Patrocinador (Sponsor's Health Care Plan) and supported its full individual cost, the indirect benefit of which being obtained through cost dilution among the plan's working population (larger and younger).

After October 2004, the benefit was extinguished with the segregation between FASASS working and retired employees.

• *PLASAS — FASASS Supplementary Pension Plan*

Health care plan created on July 1, 1989 allowing optional participation. This plan supplements the medical assistance plan offering only hospital stay. PLASAS has a reserve comprising contributions made by the participants and by FASASS, which has been interrupted since August 1999. The plan has not accepted new participants since July 1999.

The funding status of the defined benefit obligations in 2007 is as follows:

	Thousands of Reais	
	2007	
	Post-Employment Plans	Other Similar Obligations
Present value of the obligations:		
To current employees	98,047	26,792
Vested obligations to retired employees	1,263,806	251,890
	1,361,853	**278,682**
Less:		
Fair value of plan assets	1,565,739	92,111
Unrecognized actuarial (gains)/losses	(106,251)	(3,544)
Unrecognized assets	(98,210)	(68,394)
Unrecognized past service cost	—	—
Provisions — Provisions for pensions	575	258,509

The amounts recognized in the combined income statements in relation to the aforementioned defined benefit obligations are as follows:

	Thousands of Reais					
	Post-Employment Plans			Other Similar Obligations		
	29/08/08	29/08/07	31/12/07	29/08/08	29/08/07	31/12/07
Current service cost	35	140	209	73	315	473
Interest cost	111,578	98,447	147,670	29,713	18,695	28,041
Expected return on plan assets	(111,549)	(98,447)	(147,670)	(8,804)	(7,072)	(10,452)
Extraordinary charges —						
Actuarial (gains)/losses recognized in the year	19	9	15	—	—	—
Past service cost	—	—	—	—	—	—
Other	—	—	—	1	7,585	81,657
Total	**83**	**149**	**224**	**20,983**	**19,523**	**99,719**

The changes in the present value of the accrued defined benefit obligations were as follows:

	Thousands of Reais	
	2007	
	Post-Employment Plans	Other Similar Obligations
Present value of the obligations at beginning of the year	1,248,879	164,712
Current service cost	209	473
Interest cost	147,670	28,041
Effect of curtailment/settlement	4,041	—
Benefits paid	(69,328)	(6,125)
Past service cost	—	—
Actuarial (gains)/losses	77,479	11,884
Other	(47,097)	79,697
Present value of the obligations at end of year	**1,361,853**	**278,682**

The changes in the fair value of the plan assets were as follows:

	Thousands of Reais	
	2007	
	Post-Employment Plans	Other Similar Obligations
Fair value of plan assets at beginning of year	1,419,518	74,661
Expected return on plan assets	147,670	10,452
Actuarial gains/(losses)	72,322	(793)
Contributions	277	—
Benefits paid	(74,048)	(249)
Exchange differences and other items	—	8,040
Fair value of plan assets at end of year	**1,565,739**	**92,111**

The combined companies made contributions to the defined contribution pension funds from January 1, 2008 to August 29, 2008 in the amount of R$62,775 thousands. Starting on August 29, such contributions are expected to be made by the parent company, and the amounts to be funded are expected to be similar to those made in 2007. The main categories of plan assets as a percentage of total plan assets are as follows:

	2007
Debt instruments	85.7%
Equity instruments	12.7%
Properties	1.0%
Other	0.6%

The expected return on plan assets was determined on the basis of the market expectations for returns over the duration of the related obligations.

The following table shows the estimated benefits payable at December 31, 2007 for the next ten years:

	Thousands of Reais
2008	108,059
2009	110,803
2010	114,227
2011	117,951
2012	121,613
2013 to 2017	665,456
Total	**1,238,109**

d) Provisions for commitments and other provisions

The Combined Companies are party to judicial and administrative proceedings involving tax, civil and labor matters arising in the normal course of its business.

Reserves were recognized based on the nature, complexity and history of the lawsuits, and the opinion of the in-house and outside legal counsel. The Combined Companies' policy is to accrue the full amount of lawsuits whose likelihood of unfavorable outcome is probable.

Legal obligations — tax and social security were fully recognized in the financial statements, independently of evaluation the status of the lawsuit and probability of success.

Management understands that the recognized reserves are sufficient to cover probable losses on the lawsuits.

i. Legal obligations and other contingencies- Tax and social security

Provisions for tax and social security suits are represented by legal and administrative processes regarding federal, municipal and state taxes, comprising legal obligations.

Legal proceeding filed on August 24, 2000 by ABN AMRO Arrendamento Mercantil S.A. requesting the deductibility for income tax purposes of the depreciation and amortization expense in the same period as that in which the lease income is recognized. The entity received a favorable judgment on April 16, 2008 which was appealed against by the Brazilian tax authorities. A decision has yet to be handed down by the Federal Regional Court.

Real Leasing S.A. Arrendamento Mercantil and Banco Real S.A. have filed various administrative and legal claims in connection with the deductibility of the provision for doubtful debts for 1995.

Banco Real S.A. and other Group companies in Brazil are involved in several administrative and legal proceedings against various municipalities that demand payment of the service tax on certain items of income from transactions not classified as provisions of services.

CSLL — equal tax treatment — R$317,905 thousands — Lawsuit regarding the difference in social contribution tax rate levied for financial institutions and equivalent entities in 1994 to 1998, as such tax rate was higher than the rates levied for other legal entities, breaching the equal tax treatment constitutional principle. The lawsuits are at appeal stage at the Regional and Superior Courts.

PIS and Cofins (taxes on revenue) — Law No. 9,718/98 — R$1,322,630 thousands — Lawsuits seeking to ensure the right to pay PIS and Cofins based on the total revenue, i e., revenue from services provided, overruling the provision of article 3, paragraph 1, of Law No. 9,718/98. The lawsuits are awaiting decision at the Regional Federal Court.

ii. Labor contingencies

These basically comprise suits filed by former employees claiming overtime and by former employees of outsourced companies claiming acknowledgement of employment relationship and payment of the related severance pay. The contingency amounts are accrued for according to the Provision and Contingency Policy, approved by the Bank's Executive Committee, as follows:

(i) *individual analysis* — the potential loss amounts regarding individually significant claims are analyzed separately, considering the current process phase, the position courts on the matter at issue and the opinion of internal and external legal counsel. The amount considered as probable risk of loss with a reliable estimate is fully provided.

(ii) provision in the amount of the judicial deposit balance made for the suit for labor claims with judicial deposits, a provision is set up based on the deposit balance. The amount provided corresponds to the percentage of judicial deposits translated into payment of the suits dismissed in the past twenty-four months. Such percentage is reviewed every six months.

(iii) *collective provision* — for the remaining suits, the provision is made based on the average history of losses referring to suits dismissed in the past twelve months. The average history of losses is reviewed every six months.

iii. Civil contingencies

These namely include civil suits referring to pain and suffering and asset damage, among others with sentences to condemn. The contingency amounts are provided according to the Provision and Contingency Policy approved by the Bank's Executive Committee, as follows:

(i) *individual analysis* — the potential loss amounts regarding individually significant claims are analyzed separately, considering the current process phase, the position of courts on the matter at issue and the opinion of internal and external legal counsel. The amount considered as probable risk of loss with a reliable estimate is fully provided.

(ii) provision in the amount of the judicial deposit balance made for the suit — for civil claims with judicial deposits, a provision is set up based on the deposit balance. The amount provided corresponds to the percentage of judicial deposits translated into payment of the suits dismissed in the past eighteen months. Such percentage is reviewed every twelve months.

(iii) *collective provision* — for the remaining suits, the provision is made based on the average history of losses referring to suits dismissed in the past eighteen months. The average history of losses is reviewed every six months.

iv. Other lawsuits under the responsibility of former controlling stockholders

Under the agreement entered into when the control of Banco Sudameris Brasil S.A. and subsidiaries was acquired, through a Share Purchase and Sale Agreement dated June 13, 2003, Banca Intesa S.p.A., as seller and pursuant to previously established parameters, agreed to indemnify the buyer (Banco ABN AMRO Real S.A., successor by merger of ABN AMRO Brasil Participações Financeiras S.A.) for all losses, damages or costs arising from civil, tax and labor lawsuits and administrative proceedings, whose triggering events have occurred before the acquisition of the stockholding control by Banco ABN AMRO Real S.A. As of December 31, 2007, the balance of indemnities receivable is R$357,303 thousands.

v. Contingent liabilities classified as possible loss risk

Refer to judicial and administrative proceedings involving tax and social security obligations, as described below:

- *Provisional Contribution Tax on Financial Transactions (CPMF):* This claims the levy of CPMF at zero rate on operations described in Revenue Ordinances, under article 8, item III, Law No. 9311/96, for commercial lease companies. The updated amount involved is approximately R$201,210 thousands.
- *Social Contribution Tax (CSLL) — Unconstitutionality — Ineligibility to amnesty under Law No. 9779/99*: This challenges the fact that the entities that enjoyed the amnesty benefit granted by this Law failed to fully comply with its requirements under the allegation that there was no legal measure covering all the periods in which the payments were made (1989 to 1999). The updated amount involved is approximately R$152,385 thousands.
- *CSLL — Tax rate parity in prior periods:* Claim relating to the different CSLL rate charged to financial and similar institutions in the first half of 1996, considering that such rate was more than those applicable to legal entities in general, opposing the principle of precedence and limited retrospection. The updated amount involved is approximately R$148,609 thousands.
- *CSLL — res judicata:* This refers to an injunction ensuring the right not to recognize formal tax credits relating to supposedly irregular payments of CSLL, considering that the Bank has received a final unappealable decision relieving it of the obligation to pay CSLL, pursuant to Laws No. 7689/88 and No. 7787/89. The updated amount involved is approximately R$146,176 thousands.
- *Social Integration Program (PIS):* Ineligibility to such tax amnesty under Law No. 9779/99 — This challenges the fact that the companies that enjoyed the amnesty benefit granted by this Law failed to fully comply with its requirements, such as: (i) nonpayment of the tax debt in full; and (ii) absence of litigation covering the periods relating to the enforcement of Constitutional Amendments 10/96 and 17/97. The updated amount involved is approximately R$101,717 thousands.
- *Service Tax (ISS):* This aims at ensuring the right to not recognize the tax credit formalized by the city of São Paulo, relating to the levy of ISS on services rendered by leasing companies, under the allegation that the place of the tax payment was incorrect. The updated amount involved is approximately R$97,917 thousands.

22. Other liabilities

The breakdown of the balance of "Other Liabilities" is as follows:

	Thousands of Reais
	2007
Transactions in transit	185,665
Accrued expenses and deferred income	948,447
Other payables	183,785
Accrued CAPEX	131,242
Other	245,528
	1,694,667

23. Tax matters

a) *Income and Social Contribution Taxes*

The total charge for the year can be reconciled to accounting profit as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Income before taxes, net of profit sharing	**2,281,603**	**2,649,339**	**4,153,807**
Interest on capital(1)	(373,000)	(290,760)	(627,639)
Unrealized profits	—	—	—
Income before taxes	**1,908,603**	**2,358,579**	**3,526,168**
Total income and social contribution tax at the rates of 25% and 15%, respectively(*)	**(763,441)**	**(801,917)**	**(1,198,897)**
PIS and COFINS (net of income and social contribution taxes)(2)	(316,450)	(343,947)	(574,097)
Equity in subsidiaries	77,296	46,484	62,087
Reserve for maintenance of integrity of stockholders' equity(3)	92,418	22,632	72,878
Nondeductible expenses and provisions	44,161	33,645	80,029
Exchange variation — foreign branches(4)	(110,652)	(112,373)	(233,404)
Effect of income and social contribution taxes on prior year's temporary differences	510	11,222	15,879
Effects of change in tax rate and result in subsidiaries at the rate of 9%	117,627	—	—
Other adjustments	(48.412)	29,407	55,168
Income and social contribution taxes	**(906,943)**	**(1,114,847)**	**(1,720,357)**
Of which			
Current tax	*(2,075,725)*	*(1,639,301)*	*(2,686,146)*
Deferred taxes	*1,168,782*	*524,454*	*965,789*
Taxes paid in the year	*(1,392,650)*	*(919,678)*	*(1,520,656)*

(*) 25% and 9% for 2007

(1) Amount distributed to shareholders as interest attributable to shareholders' equity. For accounting purposes, although the interest should be reflected in the statement of income for tax deduction, the charge is reversed before the calculation of the net income in the statutory financial statements and deducted from the shareholders' equity since it is considered as dividend.

(2) PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses), therefore and accordingly to IAS 12 it is recorded as income taxes.

(3) Reserve for maintenance of integrity of stockholders' equity — corresponds to a special deduction that arose in the 2007 Corporate Reorganization and equalization reserve (see Notes 3 and 26).

(4) Relates to non deductible exchange losses from foreign branches See Note 34

b) Effective tax rate calculation

The effective tax rate is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Profit Before Tax	2,281,603	2,649,339	4,153,807
Income tax	906,943	1,114,847	1,720,357
Effective tax rate(1)	39.8%	42.1%	41.4%

(1) At August 29, 2008, and, 2007 and for the year ended December 31, 2007, the effective tax rate would have been 37.2%, 37.4% and 35.1% respectively, excluding the tax effect of the economic hedge over foreign branches (Note 34)

c) Tax recognized in equity

In addition to the income tax recognized in the combined income statement, the Combined Companies recognized the following amounts in the combined equity:

	Thousands of Reais
	31/12/2007
Tax charged to equity:	**(14,123)**
Measurement of available-for-sale fixed-income securities	(4,203)
Measurement of cash flow hedges	(9,920)
Tax credited to equity:	**6,496**
Measurement of available-for-sale fixed-income securities	6,496
Total	**(7,627)**

d) Deferred taxes

The detail of the balances of "Tax assets — Deferred" and "Tax liabilities — Deferred" is as follows:

	Thousands of Reais
	31/12/2007
Tax assets	**3,581,006**
Tax loss carryforwards	108,806
Temporary differences	3,472,200
Of which	
Provision for doubtful debt	*1,103,400*
Credit operations losses	*750,304*
Provision for contingencies	*763,183*
Tax liabilities	
Of Which	**351,251**
Excess depreciation of leased asset	*322,726*
Adjustments to fair value of trading securities and derivatives	*2,139*

The changes in the balances of "Tax Assets — Deferred" and "Tax Liabilities — Deferred" for 2007 were as follows:

	Thousands of Reais			
	Balances at January 1, 2007	(Charge)/ Credit to Income	Charge/ Credit to Asset and Liability Revaluation Reserve	Balances at December 31, 2007
Deferred tax assets	2,572,504	1,060,569	(52,067)	3,581,006
Deferred tax liabilities	353,475	94,780	(97,004)	351,251
Net position	**2,219,029**	**965,789**	**44,937**	**3,229,755**

24. Minority interests

"Minority interests" include the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Combined Companies, including the portion attributed to them of profit for the year.

a) Breakdown

The detail, by Group company, of the balance of "Equity — Minority interests" is as follows:

	Thousands of Reais		
	29/08/2008	**29/08/2007**	**31/12/2007**
Banco Comercial e de Investimento Sudameris S.A.	3,825	3,618	4,212
Real Leasing S.A. Arrendamento Mercantil	795	747	767
Real CHP S.A.	297	315	423
	4,917	4,680	5,402
Profit for the year attributed to minority interests	389	465	1,171
Of which			
Banco Comercial e de Investimento Sudameris S.A.	*162*	*214*	*803*
Real Leasing S.A. Arrendamento Mercantil	*31*	*26*	*47*
Real CHP S.A.	*196*	*225*	*321*

b) Changes

The changes in the balance of "Minority interests" are summarized as follows:

	Thousands of Reais		
	29/08/2008	**29/08/2007**	**31/12/2007**
Balance at beginning of year	5,402	4,554	4,554
Change in proportion of ownership interest	(870)	(339)	(339)
Exchange differences and other items	(4)	—	16
Profit for the year attributable to minority interests	389	465	1,171
Balance at end of year	**4,917**	**4,680**	**5,402**

25. Valuation adjustments

The balances of "Valuation adjustments" include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognized temporarily in equity through the statement of changes in equity (recognized income and expense) until they are extinguished or realized, when they are recognized definitively as shareholders' equity through the combined income statement. The amounts arising from subsidiaries and jointly controlled entities are presented, on a line by line basis, in the appropriate items according to their nature.

It should be noted that the statement of recognized income and expense includes the changes to "Valuation adjustments" as follows:

- *Revaluation gains/ (losses):* includes the amount of the income, net of the expenses incurred in the year, recognized directly in equity. The amounts recognized in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- *Amounts transferred to income statement:* includes the amount of the revaluation gains and losses previously recognized in equity, even in the same year, which are recognized in the income statement.
- *Amounts transferred to the initial carrying amount of hedged items:* includes the amount of the revaluation gains and losses previously recognized in equity, even in the same year, which are recognized in the initial carrying amount of assets or liabilities as a result of cash flow hedges.
- *Other reclassifications:* includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognized gross, including the amount of the valuation adjustments relating to minority interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) Available-for-sale financial assets

This item includes the net amount of unrealized changes in the fair value of assets classified as available-for-sale financial assets.

The changes in the balance at December 31, 2007 with respect to the previous year relate mainly to the reduction arising from the loss of unrealized gains that was recognized in equity in 2007.

b) Cash flow hedges

This item includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognized in the combined income statement in the periods in which the hedged items affect it (see Note 41).

Accordingly, amounts representing valuation losses will be offset in the future by gains generated by the hedged instruments.

26. Shareholders' equity

Capital and reserves

Authorized capital is represented by 2,796,572 registered common shares without par value. The fully paid-up capital is composed as presented below:

	Shares in Thousand								
	29/08/2008 Common			29/08/2007 Common			31/12/2007 Common		
	Real	AAB Dois Par	Total	Real	AAB Dois Par	Total	Real	AAB Dois Par	Total
Brazilian residents	3,158,765	865,376	4,024,141	46,807	—	46,807	47,131	—	47,131
Foreign residents	—	—	—	1,865,762	865,376	2,731,138	1,884,065	865,376	2,749,441
Total	**3,158,765**	**865,376**	**4,024,141**	**1,912,569**	**865,376**	**2,777,945**	**1,931,196**	**865,376**	**2,796,572**

As further commented in Nota 1-b, these financial statements relate to the financial statements of certain combined companies. As such, the shareholders' equity presented is combined, considering the eliminations necessary for transactions and investments between the companies in the Combined Companies. As further commented in item (7) below, on August 29, 2007, Banco ABN AMRO Real S A. merged the entities ABN AMRO Brasil Participações Financeiras S.A. and BRI-PAR Dois Participações S A., both which had ownership participation in Banco Real. Therefore, for the preparation of these financial statements, the shareholders' equity of these companies are also considered, eliminating the portion related to their ownership participation in Banco Real.

(Thousands of Brazilian Reais)

The breakdown of the movements of Share Capital and Reserves provided in the Combined Statements of Changes in Total Equity is provided below:

	ABN AMRO Real S.A.			Bri-Par Dois Participações			ABN AMRO Brasil Participações Financeiras S.A.			ABN AMRO Brasil Participações S.A.			Total	
	Share Capital	Reserves	Ref.	Share Capital	Reserves	Ref.	Share Capital	Reserves	Ref.	Share Capital	Reserves	Ref.	Share Capital	Reserves
Jan — Aug 2007														
Capital increase	99,125	—	8	255,600	—	9	609,102	(609,102)	10	—	—		963,827	(609,102)
Capital reductions		—		—	—		(3,243,729)	—	12	—	—		(3,243,729)	—
Corporate restructuring	653,804	—	7	—	—		1,480,249	2,433	11	—	—		2,134,053	2,433
Other(1)		—		—	—					—	—		1,564,409	926,670
Jan — Dec 2007														
Capital increase	211,076	—	6, 8	255,600	—	9	609,102	(609,102)	10	—	—		1,075,778	(609,102)
Capital reductions		—		—	—		(3,243,729)	—	12	—	—		(3,243,729)	—
Corporate restructuring	653,804	—	7	—	—		1,480,249	2,433	11	—	—		2,134,053	2,433
Other(1)													1,564,409	926,670
Jan — Aug 2008														
Capital increase	2,517,966	(2,350,000)	2, 5	—	—		—	—		358,794	(358,794)	13	2,876,760	(2,708,794)
Transfers	—	—		—	—		—	—		—	—		—	—
Other	28,140	(24,574)	3, 4	—	—		—	—		—	—		28,140	(24,574)

(1) As further commented below, at an Extraordinary Stockholders' Meeting held on August 29, 2007, Banco ABN AMRO Real S A merged the entities ABN AMRO Brasil Participações Financeiras S A and BRI-PAR Dois Participações S A , with the issuance of 48,902,142 new common shares without par value in the amount of R$653,804, ratified by the Central Bank of Brazil on April 9, 2008 Such entities had an ownership participation in Banco Real of 32 8% and 22 0% respectively at January 1, 2007 and 0 1% and 22 5% respectively at June 30, 2007 (effective date of merger) Therefore, this amount relates to the changes in the elimination amount due to changes in the percentage ownership held as well as from the incorporation of the assets and liabilities in the capital increase

ABN AMRO Real S.A.

1. At the Extraordinary Stockholders' Meeting held on July 25, 2008, the stockholders of Banco Real approved, by unanimity and without restrictions, the cancellation of 680,998 common shares issued by Banco Real held in treasury, in the amount of R$4,916 thousands, without reducing capital.

2. The Extraordinary Stockholders' Meeting held on April 24, 2008 approved a capital increase, without the issuance of shares (all of which against reserves), with net income for 2007, in the amount of R$2,350,000 thousands, ratified by the Central Bank of Brazil on September 9, 2008.

3. The Extraordinary Stockholders' Meeting held on March 27, 2008 approved the merger of the shares of Aymoré Crédito, Financiamento e Investimento S.A. into Banco ABN AMRO Real S.A., and, as a result of the merger of shares, a capital increase was approved, through the issuance of 1,202,979,741 common shares without par value in the amount of R$38,796 thousands, ratified by the Central Bank of Brazil on August 28, 2008.

4. The Extraordinary Stockholders' Meeting held on February 29, 2008 approved the reduction of Banco ABN AMRO Real S.A.'s capital with the cancellation of 2,439,636 common shares without par value, of which R$9,697 thousands of capital and R$959 thousands of capital increase, due to the partial spin-off of Banco ABN AMRO Real S.A. approved at the Extraordinary Stockholders' Meeting held on February 29, 2008, ratified by the Central Bank of Brazil on August 28, 2008.

5. The Extraordinary Stockholders' Meeting held on January 28, 2008 approved a capital increase through the issuance of 27,054,441 common shares without par value in the amount of R$167,966 thousands, ratified by the Central Bank of Brazil on August 28, 2008.

6. The Extraordinary Stockholders' Meeting held on December 12, 2007 approved a capital increase through the issuance of 18,626,655 common shares without par value in the amount of R$111,951 thousands, ratified by the Central Bank of Brazil on May 5, 2008.

7. As approved at an Extraordinary Stockholders' Meeting held on August 29, 2007, Banco ABN AMRO Real S.A. merged the entities ABN AMRO Brasil Participações Financeiras S.A. and BRI-PAR Dois Participações S.A., with the issuance of 48,902,142 new common shares without par value in the amount of R$653,804 thousands, ratified by the Central Bank of Brazil on April 9, 2008.

8. The Extraordinary Stockholders' Meetings held on April 26, 2007 approved a capital increase through the issuance of 17,757,685 common shares without par value in the amount of R$99,125 thousands, ratified by the Central Bank of Brazil on July 20, 2007.

Bri-Par Dois Participações

9. The Extraordinary Stockholders' Meeting held on February 16, 2007 approved a capital increase in the amount of R$255,600 raising it from R$1,934,719 thousands to R$2,190,319 thousands, through the issuance of 23,494,375 common shares without par value.

ABN AMRO Brasil Participações Financeiras S.A.

10. The Extraordinary Stockholders' Meeting held on April 24, 2007 approved a capital increase in the amount of R$609,102 thousands, through the issuance of 609,102,406 common shares with a par value of R$1.00 (one Real) each, all of which through reserves.

11. On April 25, 2007, due to the incorporation of Mandaguari Participações Ltda., the Extraordinary Stockholders' Meeting held on this day approved a capital increase in the amount of R$1,480,249 thousands, through the issuance of 1,480,249,428 common shares with a par value of R$1.00 (one Real) each, subscribed and integrated by ABN AMRO N.V.

12. The Extraordinary Stockholders' Meeting held on June 18, 2007 approved a capital reduction of ABN AMRO Brasil Participações Financeiras S A in the amount R$3,243,729 thousands, through the cancelation of 3,243,729,108 common shares with a par value of R$1.00 (one Real) each, of which 3,243,727,320 shares belonging to ABN AMRO Bank N.V., and 1,788 shares belonging to TEBEMA B.V.

ABN AMRO Brasil Dois Participações S.A.

13. The Extraordinary Stockholders' Meeting held on April 24, 2008 approved a capital increase in the amount of R$358,794 thousands, without the issuance of new shares, through reserves.

b) Dividends and Interest on Capital

In accordance with the Combined Companies' bylaws, stockholders are entitled to a minimum dividend equivalent to 25% of net income for the year, adjusted according to legislation. In 2007, the meetings of the Executive Board and Board of Directors approved the following payments:

Interest on capital are amounts distributed to shareholders, that are calculated similar to an interest attributable to shareholders' equity. For accounting purposes, although such dividend is treated as a tax expense, it is deducted from the shareholders' equity since is considered as dividend. Interest on capital, calculated for 2007, in the amount of R$627,646 thousands attributed to mandatory minimum dividends for 2008. Pursuant to Law No. 9,249/95, interest on capital reduced income tax expense resulting in a tax benefit of R$213,400 thousands.

Additionally, the Combined Companies proposed dividends related to net income for years prior to 2007, of R$909,300 thousands.

The meetings of the Executive Board and Board of Directors, up to August 29, 2008, approved the following payments:

Interest on capital are amounts distributed to shareholders, that are calculated similar to an interest attributable to shareholders' equity. For accounting purposes, although such dividend is treated as a tax expense, it is deducted from the shareholders' equity since is considered as dividend. Interest on capital, calculated for 2007, in the amount of R$373,000 thousands attributed to mandatory minimum dividends for 2008. Pursuant to Law No. 9,249/95, interest on capital reduced income tax expense resulting in a tax benefit of R$126,820 thousands.

The Combined Companies proposed dividends related to net income for both prior years and net income projected for 2008 for R$865,936 thousands.

27. Operational Ratios

Financial institutions are required to maintain regulatory capital consistent with their activities, higher to the minimum of 11% of required capital. In July 2008 new regulatory capital measurement rules, under the Basel II Standardized Approach, went into effect, including a new methodology for credit risks and operational risks measurement, analysis and management. This ratio must be calculated on a consolidated basis, as shown below:

	Thousands of Reais
	2007
Adjusted Tier I Regulatory Capital	12,137,565
Tier II Regulatory Capital	1,813,853
Adjusted Regulatory Capital	**13,951,418**
Required Regulatory Capital	**11,402,950**
Adjusted Portion of Credit Risk	10,335,088
Market Risk Portions	523,806
Operational Risk Portion	544,056
Basel II Ratio	**13.46%**

28. Guarantees

The Combined Companies provide a variety of guarantees to their customers to improve their credit standing and allow them to compete. The following table summarizes at December 31, 2007 all of the guarantees.

As required, the *"maximum potential amount of future payments"* represents the notional amounts that could be lost if there were a total default by the guaranteed parties, without consideration of possible recoveries from collateral held or pledged, or recoveries under recourse provisions. There is no relationship between these amounts and probable losses on these guarantees. In fact, *maximum potential amount of future payments* significantly exceeds inherent losses.

Maximum Potential Amount of Future Payments	Thousands of Reais 2007
Contingent liabilities:	
Guarantees and other sureties	6,720,886
Financial guarantees	*6,024,229*
Performance guarantees	*28,014*
Financial standby letters of credit	*648,214*
Other	*20,429*
Other contingent exposures	263,023
Documentary Credits	*263,023*
Total Contingent Liabilities	**6,983,909**
Commitments:	
Loan commitments drawable by third parties	19,442,869
Other commitments	2,213,678
Securities placement commitments	*2,213,678*
Total Commitments	**21,656,547**
Total Commitments and Contingent Liabilities	**28,640,456**

Financial guarantees are provided to clients in obligations with third parties. The Combined Companies have the right to seek reimbursement from clients for any amount they shall have to pay under such guarantee. Additionally, they may hold cash or other highly liquid collateral for these obligations. These agreements are subject to the same credit evaluation performed on the execution of loans.

The Combined Companies expect many of these guarantees to expire without the need to advance any cash. Therefore, in the ordinary course of business, they expect that these transactions will have virtually no impact on their liquidity.

Performance guarantees are issued to guarantee customers obligations such as to make contractually specified investments, to supply specified products, commodities, or maintenance or warranty services to a third party, completion of projects in accordance with contract terms, etc. Financial standby letters of credit include guarantees of payment of loans, credit facilities, promissory notes and trade acceptances. The Combined Companies always requires collateral to grant this kind of financial guarantees. In Documentary Credits, the Combined Companies act as a payment mediator between trading companies located in different countries (import-export transactions). Under a documentary credit transaction, the parties involved deal with the documents rather than the commodities to which the documents may relate. Usually the traded commodities are used as collateral to the transaction and the Combined Companies may provide some credit facilities. Loan commitments drawable by third parties include mostly credit card lines and commercial commitments. Credit card lines are unconditionally cancelable by the issuer. Commercial commitments are mostly 1 year facilities subject to information requirements to be provided by the Combined Companies' customers.

The risk criteria followed to issue all kinds of guarantees, financial standby letters of credit, documentary credits and any risks of signature are in general the same as those used for other products of credit risk, and therefore subject to the same admission and tracking standards. The guarantees granted on behalf of customers are subject to the same credit quality review process as any other risk product. On a regular basis, at least once a year, the solvency of the mentioned customers is checked as well as the probability of those guarantees to be executed. In case that any doubt on the customer's solvency may arise the Combined Companies create allowances with charge to net income, by the amount of the inherent losses even if there is no claim to us.

Additionally, the liability recognized as deferred revenue for the premium received for providing the above guarantees, which is being amortized into income over the life of the related guarantees, is R$5,245 thousands.

29. Interest and similar income

"Interest and similar income" in the combined income statement comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value; and the rectifications of income as a result of hedge accounting. Interest is recognized gross, without deducting any tax withheld at source.

The breakdown of the main interest and similar income items earned in the period January 1st to August 29, 2008 and 2007 and for the year ended December 31, 2007 is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Balances with the Brazilian Central Banks	468,179	416,341	613,657
Loans and advances to credit institutions	1,176,439	967,766	1,314,187
Debt instruments	1,556,411	1,412,195	2,171,319
Loans and advances to customers	10,656,903	9,242,529	14,040,390
Other interest	149,343	36,437	930,526
Total	**14,007,275**	**12,075,268**	**19,070,079**

30. Interest expense and similar charges

"Interest expense and similar charges" in the combined income statement includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to pension funds.

The breakdown of the main items of interest expense and similar charges accrued in the period January 1st to August 29, 2008 and 2007 and for the year ended December 31, 2007 is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Deposits from central banks	—	—	—
Deposits from credit institutions	773,678	617,068	812,226
Customer deposits	5,021,659	4,108,980	6,063,932
Marketable debt securities and subordinated liabilities			
Marketable debt securities (Note 18)	224,622	250,111	441,461
Subordinated liabilities	209,466	55,495	120,446
Pension funds (Note 21b)	20,938	11,623	17,589
Other interest	302,303	167,437	344,679
Total	**6,552,666**	**5,210,714**	**7,800,333**

31. Income from equity instruments

"Income from equity instruments" includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The breakdown of the balance of this item is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Equity instruments classified as:			
Financial assets held for trading	149	170	439
Available-for-sale financial assets	2,315	13,122	18,010
Of which			
Dividends of Serasa	*995*	*6,555*	*6,555*
Dividends of Gerdau	*331*	*3,195*	*3,195*
Dividends of Usiminas	—	*403*	*403*
Dividends of fundo SCUDER	—	*225*	*5,043*
	2,464	**13,292**	**18,449**

32. Fee and commission income

"Fee and commission income" comprises the amount of all fees and commissions accruing in favor of the Combined Companies in the year, except those that form an integral part of the effective interest rate on financial instruments.

The breakdown of the balance of this item is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Collection and payment services:			
Bills	137,585	128,782	196,493
Demand accounts	458,931	75,035	134,152
Cards	283,406	211,428	336,600
Checks and other	83,511	162,622	245,706
Others	194,122	113,607	175,356
	1,157,555	691,474	1,088,307
Marketing of non-banking financial products:			
Investment funds	147,350	146,632	226,149
Insurance	132,008	110,190	175,229
Capitalization	70	169	212
	279,428	256,991	401,590
Securities services:			
Securities underwriting and placement	9,526	55,490	69,641
Securities trading	23,501	21,031	33,171
Administration and custody	49,843	38,369	60,170
Asset management	661	598	913
	83,531	115,488	163,895
Other:			
Foreign Exchange	17,552	18,845	26,222
Financial guarantees	96,315	111,329	159,302
Other fees and commissions	405,414	440,815	685,593
	519,281	570,989	871,117
	2,039,795	**1,634,942**	**2,524,909**

33. Fee and commission expense

"Fee and commission expense" shows the amount of all fees and commissions paid or payable by the Combined Companies in the year, except those that form an integral part of the effective interest rate on financial instruments.

The breakdown of the balance of this item is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Fees and commissions assigned to third parties	**130,673**	**94,031**	**184,479**
Of which			—
— Credit cards	*87,413*	*51,703*	*120,791*
Other fees and commissions	**296,994**	**385,379**	**577,728**
Of which:			
— Collection services	*87,349*	*81,011*	*127,199*
	427,667	**479,410**	**762,207**

34. Gains/losses on financial assets and liabilities

"Gains/losses on financial assets and liabilities" includes the amount of the valuation adjustments of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The breakdown of the balance of this item, by type of instrument, is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Held for trading(1)	520,851	169,523	292,182
Other financial instruments at fair value through profit or loss(2)	(17,488)	(14,738)	24,271
Financial instruments not measured at fair value through profit or loss	69,892	503,820	1,054,123
Of which Available-for-sale financial assets			
Debt instruments	*(3,953)*	*378,062*	*374,991*
Equity instruments	*73,845*	*125,758*	*679,132*
Other	224,829	211,193	373,853
	798,084	**869,798**	**1,744,429**

(1) In 2007, includes the net gain arising from the economic hedge of the Bank's position in Cayman, which is a non-autonomous subsidiary See Note 23 for the income tax impact of such hedge

(2) Includes the net gain or loss arising from transactions involving debt securities, equity instruments and derivatives included in this portfolio, since the Bank manages its risk in these instruments on a global basis

b) Financial assets and liabilities at fair value through profit or loss

The company only has financial assets at fair value through profit or loss in the amount of R$146,636 thousands related to debt instruments.

35. Exchange differences

"Exchange differences" shows basically the gains or losses on currency dealings, the differences that arise on translations of monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

36. Other operating income and other operating expenses

These items in the combined income statement include:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Other operating income and (expenses)			
Other operating income	**231,591**	**37,264**	**71,734**
Of which			
Indemnities — Legal obligations	*114,925*	—	*10,262*
Other operating expenses	**(248,669)**	**(183,054)**	**(358,533)**
Of which			
Contributions to Government Severance Indemnity Fund for Employees (FGTS)	*(61,519)*	*(53,466)*	*(81,098)*
	(17,078)	**(145,790)**	**(286,799)**

37. Personnel expenses

The breakdown of "Personnel expenses" is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Wages and salaries	1,318,266	1,175,865	2,011,240
Social security costs	374,907	343,425	565,403
Additions to provisions for defined benefit pension plans (Note 21)	108	455	682
Contributions to defined contribution pension funds (Note 21)	62,775	53,569	81,671
Other staff costs	369,912	329,424	526,145
	2,125,968	**1,902,738**	**3,185,141**

38. Other general administrative expenses

The breakdown of the balance of this item is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Property, fixtures and supplies	332,684	308,884	474,558
Other administrative expenses	458,109	185,173	346,501
Technology and systems	388,309	363,593	555,821
Advertising, promotions and publicity	207,327	202,837	402,406
Communications	344,836	271,350	436,762
Technical reports	70,336	77,122	124,908
Per diems and travel expenses	151,929	145,632	239,896
Taxes other than income tax	50,437	110,290	158,959
Surveillance and cash courier services	215,397	190,463	299,916
Insurance premiums	1,454	1,444	2,196
	2,220,818	**1,856,788**	**3,041,923**

39. Gains/(losses) on disposal of assets not classified as non-current assets held for sale

The breakdown of the balance of this item is as follows:

	Thousands of Reais		
	29/08/2008	29/08/2007	31/12/2007
Gains	**26,031**	**19,932**	**29,152**
On disposal of tangible assets	*2,895*	*12,680*	*25,090*
On disposal of investments	*23,136*	*7,252*	*4,062*
Losses			
On disposal of tangible assets	**(350)**	**(268)**	**(740)**
	25,681	**19,664**	**28,412**

40. Gains/(losses) on non-current assets held for sale not classified as discontinued operations

The breakdown of the balance of this item is as follows:

	Thousands of Reais		
Net Balance	29/08/2008	29/08/2007	31/12/2007
Gains	**13,979**	**40,040**	**56,888**
On disposal of tangible assets	13,979	40,040	*56,888*
Losses	**(1,173)**	**(3,819)**	**(18,719)**
On impairment of tangible assets	4,799	9,426	*12,112*
On disposal of tangible assets	(5,972)	(13,245)	*(30,831)*
Net gains	**12,806**	**36,221**	**38,169**

41. Other disclosures

a) Notional amounts and market values of trading and hedging derivatives

The breakdown of the notional and/or contractual amounts and the market values of the trading and hedging derivatives held by the Combined Companies are as follows:

	Thousands of Reais	
	2007	
	Notional Amount	Market Value
Trading derivatives:		
Interest rate risk —		
Interest rate swaps	48,483,643	1,229,840
Options and futures	22,435,640	—
Foreign currency risk —		
Foreign currency purchases and sales	18,806,071	(58,936)
Foreign currency options	41,143,467	(587,872)
Currency swaps	4,920,069	
	135,788,890	**583,032**
Hedging derivatives:		
Interest rate risk —		
Interest rate swaps	2,404,636	645,749
	2,404,636	**645,749**
Total	**138,193,526**	**1,228,781**

Additionally, the Bank has cash flow hedges — Futures operations — DI with notional value of R$14,938,193. The mark-to-market effect of these cash flow hedges, with maturity that varies from April 1, 2008 to January 4, 2010, is recorded directly in equity, and at December 31, 2007 corresponded to a debit of R$50,448 thousand, net of taxes. The effectiveness determined for the Market Risk and Cash Flow Risk Hedge portfolio as of December 31, 2007 is compliant with the Central Bank's requirements and no ineffective portion to be recorded in the period was identified. Futures-DI transactions designated as hedge instrument have daily adjustments and are recorded in assets or liabilities and settle in cash daily.

The breakdown of the notional and/or contractual amounts of trading derivative and hedging derivatives by maturity is as follows:

	Thousands of Reais			
	2007			
	Up to 3 Months	From 3 to 12 Months	Over 12 Months	Total
Swap	17,741,819	12,164,431	20,982,029	50,888,279
Option	39,882,211	817,082	444,174	41,143,467
Forward and futures contracts	19,112,554	10,961,132	16,088,094	46,161,780
	76,736,584	**23,942,645**	**37,514,297**	**138,193,526**

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk assumed by the Combined Companies, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Combined Companies basically to hedge the interest rate, underlying asset price or foreign currency risk; the results on these financial instruments are recognized under "Gains/losses on financial assets and liabilities (net)" in the combined income statements and increase or offset, as appropriate, the gains or losses on the investments hedged.

Additionally, in order to interpret correctly the results on the "Securities and Commodities Derivatives" shown in the foregoing table, it should be considered that these items relate mostly to securities options for which a premium has been received which offsets their negative market value. Also, this market value is offset by positive market values generated by symmetrical positions in the Combined Companies' held-for-trading portfolio.

The Combined Companies manage the credit risk exposure of these contracts through netting arrangements with their main counterparties and by receiving assets as collateral for their risk positions.

The detail of the cumulative credit risk exposure, by financial derivative, is as follows:

	Thousands of Reais
	31/12/2007
Securities derivatives	64,361
Currency derivatives	64,869,607
Interest rate derivatives	73,259,558
Total	**138,193,526**

b) Off-balance-sheet funds under management

At December 31, 2007, the amount relating to off-balance-sheet funds managed by the Combined Companies amounted to R$39,107,823 thousands and related to Investment funds.

c) Third-party securities held in custody

At December 31, 2007, the Combined Companies held in custody debt securities and equity instruments totaling R$18,029,368 thousands entrusted to it by third parties.

d) *Residual maturity periods and Average interest rates*

The breakdown, by maturity, of the balances of certain items in the combined balance sheet is as follows:

	December 31, 2007								
	Thousands of Reais								
	On Demand	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	After 5 Years	Total	Average Interest Rate
Assets:									
Cash and balances with the Brazilian Central Banks	10,948,839	—	—	—	—	—	—	10,948,839	—
Available-for-sale financial assets-	—	1,474,195	—	2,164,234	8,400,353	314,483	392,517	12,745,782	11%
Loans and receivables:									
Loans and advances to credit institutions	1,285,494	300,203	306,668	3,866,728	4,097,683	590,842	2,339,083	12,786,701	7%
Loans and advances to customers	10,193	4,269,073	15,927,749	21,038,313	18,259,035	3,750,355	1,268,278	64,522,996	22%
	12,244,526	**6,043,471**	**16,234,417**	**27,069,275**	**30,757,071**	**4,655,680**	**3,999,878**	**101,004,318**	
Liabilities:									
Financial liabilities at amortized cost:									
Deposits from credit institutions	83,728	10,921,669	4,511,016	4,115,342	5,308,234	1,119,902	287,540	26,347,431	11%
Customer deposits	19,688,527	57	5,169,512	7,040,500	12,184,198	10,874,869	407,747	55,365,410	10%
Marketable debt securities	—	71,776	221,339	662,640	1,142,344	206,719	696,601	3,001,419	7%
Subordinated liabilities	—	—	—	72,902	70,852	1,855,446	—	1,999,200	11%
Other financial liabilities	1,343,433	2,366,147	49,480	199,567	—	—	—	3,958,627	
	21,115,688	**13,359,649**	**9,951,347**	**12,090,951**	**18,705,628**	**14,056,936**	**1,391,888**	**90,672,087**	
Difference (assets less liabilities)	**(8,871,162)**	**(7,316,178)**	**6,283,070**	**14,978,324**	**12,051,443**	**(9,401,256)**	**2,607,990**	**10,332,231**	

e) Equivalent reais value of assets and liabilities

The detail of the main foreign currency balances in the combined balance sheet, based on the nature of the related items, is as follows:

	Equivalent Value in Thousands of Reais	
	31/12/2007	
	Assets	Liabilities
Cash and balances with Brazilian Central Bank	—	—
Financial assets/liabilities held for trading	348,065	987,195
Available-for-sale financial assets	4,911,298	—
Loans and receivables	1,344,638	—
Financial liabilities at amortized cost	—	1,411,319
	6,604,001	**2,398,514**

f) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Combined Companies are measured at fair value in the accompanying combined balance sheet, except for loans and receivables and equity instruments whose market value cannot be estimated reliably.

Similarly, the Combined Companies' financial liabilities — except for financial liabilities held for trading and those measured at fair value — are measured at amortized cost in the combined balance sheet.

i) Financial assets measured at other than fair value

Following is a comparison of the carrying amounts of the Combined Companies' financial assets measured at other than fair value and their respective fair values at year-end:

	Thousands of Reais	
	31/12/2007	
Assets	Carrying Amount	Fair Value
Loans and receivables:		
Loans and advances to credit institutions	12,786,701	12,785,627
Loans and advances to customers (Note 9)	64,522,996	64,083,540
	77,309,697	**76,869,167**

ii) Financial liabilities measured at other than fair value

Following is a comparison of the carrying amounts of the Combined Companies' financial liabilities measured at other than fair value and their respective fair values at year-end:

	Thousands of Reais	
	31/12/2007	
Liabilities	Carrying Amount	Fair Value
Financial liabilities at amortized cost:		
Deposits from credit institutions (Note 16)	26,347,431	26,280,275
Customer deposits (Note 17)(*)	55,365,410	55,365,410
Marketable debt securities (Note 18)	3,001,419	2,924,025
Subordinated liabilities (Note 19)	1,999,200	1,998,122
Other financial liabilities (Note 20)	3,958,627	3,958,627
	90,672,087	**90,526,459**

(*) For these purposes, the fair value of customer demand deposits is taken to be the same as their carrying amount

42. Related party transactions

The parties related to the Combined Companies are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Combined Companies' key management personnel and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the ordinary business transactions performed by the Combined Companies with its related parties:

a) Management compensation

i) Short-term benefits

Board of Directors' and Executive Board's compensation:

	Thousands of Reais
	2007
Fixed compensation	18,722
Variable compensation	64,250
Other	3,653
Total	**86,625**

ii) Contract termination

Employment contracts have an undefined period. The termination of the employment relationship for non-fulfilment of obligations or voluntarily does not entitle executives to any financial compensation.

(Thousands of Brazilian Reais)

iii) Other information

Lending operations

In conformity with prevailing regulations, financial institutions cannot grant loans or advances to:

a) any individuals or legal entities that control the institution or any entity under joint control with the institution, or any officer, member of the board of directors, member of the supervisory board, or member of the immediate family of such individuals;

b) any entity controled by the institution; or

c) any entity in which the Combined Companies hold, directly or indirectly, 10% or more of the capital.

Accordingly, loans or advances are not granted to any subsidiaries, executive officers, members of the board of directors or their families.

Ownership Interest

The table below shows the direct interest as of December 31, 2007 of total shares.

	2007			
	Common Shares		Common Shares (%)	
	Real	AAB Dois Par	Real	AAB Dois Par
ABN AMRO BANK NV(1)	1,884,064	865,376	97.56%	100.00%
Others	47,132	—	2.44%	0.00%
Total	**1,931,196**	**865,376**	**100.00%**	**100.00%**

(1) On July 24, 2008, Banco Santander Spain took indirect share control of the companies of the ABN AMRO Real Group in Brazil, after meeting all conditions for this transfer of control, with the approval of De Nederlandsche Bank (the Central Bank of the Netherlands) and the Brazilian Central Bank (Note 3)

b) Related-Party Transactions

The balances resulting from consolidated and/or combined intercompany transactions were eliminated, whereas balances of operations performed with ABN AMRO group companies abroad, including exchange operations, in the net amount of R$4,003,671 at December 31, 2007 were not eliminated from the Combined Financial Statements. Transactions with related parties are carried out under usual market conditions as regards agreed payment conditions and interest rates.

The balances of intercompany operations involving companies in Brazil not included in the combined financial statements are not presented herein, considering that they are not significant in the context of the Conglomerate.

Transactions among the entities of Santander are carried out under usual market rates and terms, comparable to those applied in transactions with unrelated parties.

Thousands of Reais			
Assets	31/12/2007	Liabilities	31/12/2007
Cash	**449,662**	**Borrowings and Onlendings**	**4,339,277**
ABN AA USA Branches — United States	230,188	ABN AA USA Branches — United States	141.899
ABN AA Japan Branches — Japan	16,360	ABN AA Japan Branches — Japan	2.071.742
ABN Regio NL — Netherlands	203,114	ABN Regio NL — Netherlands	2 125.636
Interbank Investments	**179,755**	**Foreign Exchange Portfolio — Liabilities**	**20,127,214**
ABN AMRO Europe — REGIO NL	91,231	ABN AA USA Branches — United States	2 229.387
ABN AMRO North America — AA USA branches	88,524	ABN AA UK Branches — United Kingdom	17.881.821
Securities and Derivatives	**50,816**	ABN Regio NL — Netherlands	16.006
ABN AA USA Branches — United States	50,816	**Dividends and Bonuses Payable**	**215,288**
Foreign Exchange Portfolio — Assets	**19,997,875**	ABN AMRO Europe — Regio NL	215.288
ABN AA USA Branches — United States	2,247,152		
ABN AA UK Branches — United Kingdom	17,734,445		
ABN Regio NL — Netherlands	16,278		
Total assets	**20,678,108**	**Total Liabilities**	**24,681,779**

43. Risk management

A new Senior Risk Committee (Comite de Riiesgos Santander Brasil) was created and implemented, having as members Senior Risk Managers of Banco Real and Santander Bank. The Committee meets twice a week and its main objective is to set risk apetite for all risk types, monitor risk decisions and portfolios exposures in order to ensure alignment with these limits and Santander Bank's Risk Philisophy. Notwithstanding the risk philosophy/policies, reporting, processes and local governance structure was kept in order to maintain business as usual with minimal or no impact for Banco Real clients.

Risk philosophy at the Banco Real, permits the establishment and execution of Bank wide criteria for the acceptance, monitoring, control and management of risk. Its purpose is the creation of shareholder value by ensuring:

Risk Awareness

- Risks are identified, understood, and measured at all levels in the organisation.

Defined Risk Appetite

- Risk accepted by the institution is within the tolerance level set by the Comite de Riesgos Santander Brasil in accordance with the Santander's Strategy, existing capital constraints, sustainable earnings and maintenance of desired credit rating for the Bank.

Clarity and Transparency

- Risk decisions are clear, explicit, and consistent with strategic business objectives.

Risk-Reward Alignment

- One of our core competencies is to take and manage risks. Our risk decisions should be based upon the appropriate risk-reward balance.

Compliance

- Decisions that may legally and morally commit the Bank must be in compliance with internal approval procedures, the regulations of the countries the Bank and its subsidiaries operate in, and reflect ethical values prescribed by the sustainable business policies.

- The guiding principles outlined in the Risk Charter serve as a practical interpretation of the concepts described in the Risk Philosophy. These principles apply to the Bank, and cover all risk types, including but not limited to: credit, market, operational, liquidity, legal, documentation, reputation and business.

Independence and oversight:

- Risk management maintains its independence from commercial functions and it is charged with the responsibility for ensuring that adequate reporting, monitoring and compliance policies and procedures are in place. The head of the Bank's Risk Division, Mr. Matías Rodríguez Inciarte, as third deputy chairman and in his capacity as chairman of the risk committee, reports directly to the executive committee and the board. The local risk unit keeps its independence with a direct report to the Corporate risk Unit.

Responsibility and Ownership

- Commitment to supporting the business by contributing, without undermining the preceding principle, to the achievement of commercial objectives whilst safeguarding risk quality. Promote risk awareness and ensure that risk decisions are taken in accordance with established delegated authorities. Clients are selected in accordance with KYC principles managed within approved limits. Collective decisions (even at branch level), which ensure that different opinions are taken into account and avoid situations in which decisions are taken individually.

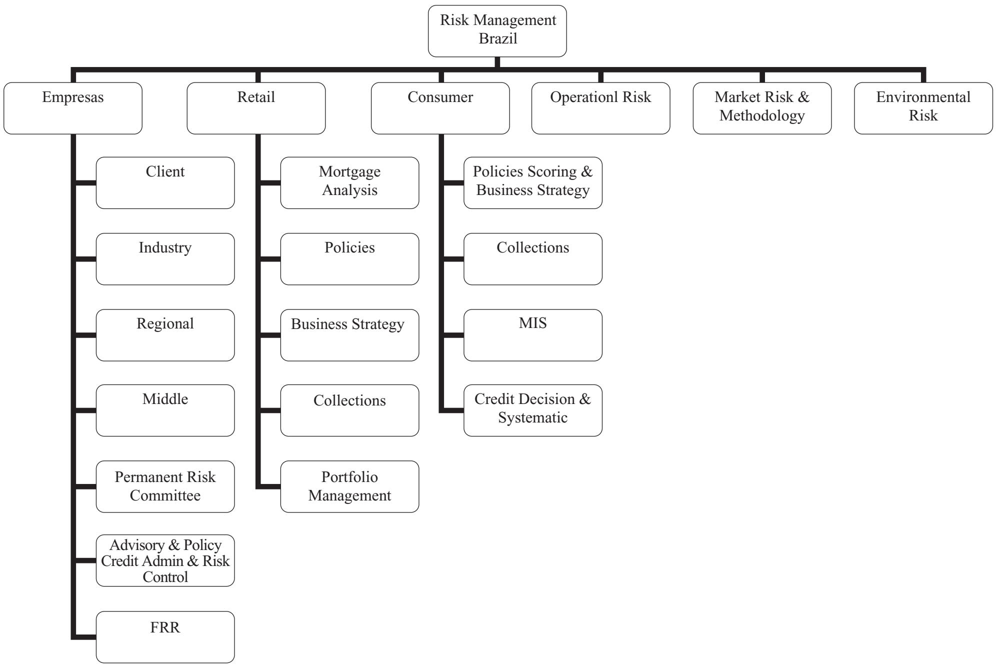
Centralisation and Aggregation

- Global approach, achieved by addressing on an integrated basis all the risk factors in all the business units and geographical locations. Risk exposures are aggregated at high level in order to measure the interaction and impact of various risks, and to provide disclosure to regulators, shareholders, rating agencies and other stakeholders. Economic capital approach is a consistent measure of the risk assumed and as the basis for assessing the management performed.

- Well-established tradition of using internal rating and scoring tools, return on risk-adjusted capital (RORAC) value-at-risk (VaR), economic capital, extreme scenario analyses etc.

I.1 Brazil Risk Management (Brazil RM)

Below the organizational chart of Brazil Risk Management, and the mandates and its main functions



I.1 1 Credit Risk Management

Non-retail Credit Risk Management (Empresas)

Empresas Credit Risk Management is organized into the following groups: (i) Credit Analysis, (ii) Advisory & Policies and Credit Administration & Risk Control and (iii) Empresas FR&R, which is a shared function.

(i) Credit Analysis for the Client, Industry, Regional, Middle Market Teams and Retail.

The main objectives of the credit analysis group are summarized as follows:

- Elaboration of credit proposals and presentation to the respective credit committees;
- Responsibility for the quality of the credit proposals, ensuring adequate usage of all credit tools (MRA, LPT, RAPID, etc) and consistent internal ratings (UCRs) for the proposed clients/counterparties;
- Interaction with front office and Santander's Risk management teams;
- Responsibility for the quality of the credit portfolio, including the maintenance of low backlog levels as per the approved credit policies;
- Elaboration of Industry Sector Analysis (Industry Champion). The Industry Champion coordinates portfolio strategy issues and defines minimum underwriting standards, whenever deemed necessary.

(ii) Advisory and Policies

Specific responsibilities of these departments include:

- Consolidate and interact in the elaboration of the Quarterly Close Monitoring Report;
- Active participation in Credit Risk Committees;
- Provide support to commercial areas whenever necessary when structuring deals;
- Develop and activate strategies to manage risk exposures down as appropriate;
- Initiate and/or analyze credit related policies for Empresas in order to harmonize policies and to ensure the high level of transparency and consolidation of risk information within the bank;
- Communicate and disseminate new credit related policies to Companies Risk Management and Client BUs;
- Maintenance of the Risk Charter;
- Coordinate the preparation of financial spreads in accordance with Banco Real's standards;
- Credit analysis and decision tools valuation with portfolio view and interaction with other departments to evaluate and define the processes of Credit and Collection, including the First Loss Project;
- Specification of all credit and collection policies and procedures to support Value Chain projects;
- Other projects including financial spreading outsourcing, outsourced credit rating for pre approved credit campaigns;
- Provides product analysis/support under a credit risk perspective.

Retail Credit Risk Management

The Retail Risk Management (RRM) is mainly organized into the following teams: (i) Mortgage Analysis; (ii) Policies ; (iii) Business Strategy, (iv) Collections and (v) Portfolio Management.

- The responsibilities of RRM related to Program Lending include:
  - Credit initiation, approval of transactions and account maintenance;
  - Monitor and optimize retail credit quality strategies;
  - Basel II;
  - Project/Policies/Reporting/Documentation
  - Development of Product Programs;
- Responsibility for automatic limit campaigns for increasing, reducing, cancelling or even creating new product lines;
- Responsibility for the stress testing exercises;

- *Credit Monitoring & Remedial Management:* Maintain continuous and efficient monitoring of customers, optimize conditions for restructuring and remedial risk management in the businesses segments (Retail and Company Monitoring) up to R$2,250,000 thousands;
  - Early/Late Collection through Call Center and external agencies up to R$50 thousands and Legal Collection;
  - Collection MIS and optimized collection strategy.
  - Provide managerial information for the whole credit cycle;
- Active management of overall portfolio (retail and non-retail);
- Mitigation of event risk by reducing single names and industry concentration;
- Responsible to perform regular Portfolio Overviews and Stress Tests;
- Basel II project;
- Economic Capital monitoring;
- Improvement of the risk-adjusted return of a retained credit portfolio

Consumer Finance Credit Risk (Aymoré)

Aymoré Risk Management is mainly organized into the following areas: (i) Policies, Scoring and Business Strategy; (ii) Collections, (iii) MIS.

The responsibilities related to Consumer Program Lending include:

- Credit initiation, approval of transactions and account maintenance;
- Setting the risk parameters in co-operation with the business, e.g. product management regarding the Product Programs (e.g. max. percentages/overrides, score cards, default rates, provisioning/write offs, risk premium);
- Development of the policy on risk strategies regarding application and monitoring processes, as well as Credit and Behavioural Scoring;
- Participation in projects regarding development of credit applications and monitoring processes;
- Approval of changes in the risk policy and strategy;
- In cooperation with Business lines, development of sales marketing campaign of product programs;
- Analysis of program lending portfolios;
- Collection process;
- Setting the formats for the portfolio management information. MIS responsibility regarding the development in the credit portfolio includes infection, loss recognition, provisioning and write offs.

I.1 2 Operational Risk Management

ORM area focuses on implementing Operational Risk tools in Brazil comprising all business ORM activities except for Asset Management, in accordance with the corporate policies. Main objectives, definitions and responsibilities are adapted, when necessary to be in alignment with local regulation.

ORM is strongly engaged on spreading operational risk management culture in the organization and in improving pro-active operational risk management attitude, as well as meeting external requirements (e.g. Brazilian Central Bank).

I.1 3 Market Risk Management

Market Risk monitors on a daily basis market risk exposures and limits. Reports exposure to local users and respective committees. Market Risk is also responsible for regular review of local trading limits at least once a year.

I.1.4 Reporting

The following reports are periodically reported to Executive Committees

BU Portfolio Review: This paper is prepared on a six-monthly basis and provides an overview of developments in the portfolio, the economic and business environment, changes in risk management structures within the region as well as application of country limits and industry limits for Banco Real.

Provisions Update: This paper is prepared on a quarterly basis and provides an overview of impaired assets and provision trends,

BU Risk Charter: This document is reviewed at least annually, with any amendments or additions to be submitted to approval.

I.1 5 Risk Appetite Framework

Any breach of limits must be tempestively reported by Brazil Risk Management to Executive Committee.

I.1.6 Models and Tools

Brazilian Corporate Rating Model, Large Corporate Rating Model, Bankscore and / or other approved rating methodologies are used as the basis for internal Uniform Counterparty Ratings.

The main rating tools currently in place are as follows:

GRACE (Generic Rating ABN AMRO Counterparty Engine) is a web-based counterparty ratings platform that supports the calculation of UCRs. MRA/MFA Wholesale infrastructure was replaced by GRACE. All counterparties with annual turnover higher than USD 5 millions are subject to GRACE system and its Models.

A rating Policy was developed to assign UCRs to counterparts with annual turnover below USD 5 mln. This policy is compliant with Basel II rules, it was already approved and it is currently implemented in Brazilian System (LC System).

Approved frameworks are applied as the basis for the classification of facilities to Loss Given Default (LGD) classes. Also Usage Given Default (UGD) percentages, relevant for determining Exposure at Default (EAD), are determined and validated for the various markets and facility types.

The business together with Brazil Risk Management proposes the UCR ratings. All UCR ratings must be approved by the relevant credit authority and confirmed at each review process. The appropriate credit authority may change the assigned UCR at any time during the lifetime of the credit facilities. The approved UCR could also be subject to changes advised by the local regulators and by the credit risk inspections reviews.

II. CREDIT RISK

II.1 Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Bank.

The specialization of the Bank's risk function is based on the type of customer and, accordingly, a distinction is made between individualized customers and standardized customers in the risk management process:

- Individualized customers are defined as those to which a risk analyst has been assigned, basically because of the risk assumed. This category includes wholesale banking customers, financial institutions and certain enterprises belonging to retail banking. Risk management is performed through expert analysis supplemented by decision-making support tools based on internal risk assessment models.

- Standardized customers are those which have not been expressly assigned a risk analyst. This category generally includes individuals, individual entrepreneurs, and retail banking enterprises not classified as individualized customers. Management of these risks is based on internal risk assessment and automatic decision-making models, supplemented subsidiarily, when the model is not comprehensive enough or is not sufficiently accurate, by teams of analysts specializing in this type of risk.

II.2 Measures and measurement tools

a. Rating tools

Banco Real has used proprietary internal rating models to measure the credit quality of a given customer or transaction. Each rating relates to a certain probability of default or non-payment, determined on the basis of the Entity's historical experience, with the exception of certain portfolios classified as "low default portfolios". Several internal rating models are used in the Bank's loan approval and risk monitoring process.

Global rating tools are applied to the sovereign risk, financial institutions and global wholesale banking segments. Management of these segments is centralized at Bank level, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst's expert judgment.

For the corporate and individualized institutions segments, a single methodology has been defined for the construction of a rating system based on the same modules as the above-mentioned ratings: a quantitative or automatic module (analyzing the credit performance of a sample of customers and the correlation with their financial statements), a qualitative or analyst judgment module, and final reviews.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

For standardized customers, both legal entities and individuals, the Bank has scoring tools that automatically assign a score to the proposed transactions.

These loan approval systems are supplemented by performance rating models. These tools provide enhanced predictability of the risk assumed and are used for preventive and marketing activities.

b. Credit risk parameters

The estimates of the risk parameters (PD, LGD and EAD) are based on internal experience, i.e. on default observations and on the experience in defaulted loan recoveries.

For portfolios with scant internal default experience, such as banks, sovereign risk or global wholesale banking, the parameters are estimated globally. These portfolios are known as "low default portfolios".

For all other portfolios, parameter estimates are based on the Bank's internal experience. In the case of SMEs, the balance sheet information is used not only to assign the rating, but also to obtain factors which explain the probability of default. In retail portfolios, the PD is calculated by observing the cases of new arrears in relation to the scoring assigned to the related transactions.

LGD calculation is based on the observation of the recoveries of defaulted loans, taking into account not only the income and expenses associated with the recovery process, but also the timing thereof and the indirect costs arising from the recovery process.

EAD is estimated by comparing the use of committed facilities at the time of default and their use under normal (performing) circumstances, so as to identify the actual use of the facilities at the time of default.

The estimated parameters are then assigned to performing, i.e. non-defaulted, loans. The assignment is different for low-default portfolios and for other portfolios. In the case of low-default portfolios, which are also global management portfolios, parameters are assigned in the same way in all the Bank units.

By contrast, the retail portfolios have specific scoring systems in each of the Bank's units, which require the performance of separate estimates and the assignation of parameters in a particular manner in each case.

c. Master rating scale

In order to achieve equivalent internal ratings in the different models available — corporate, sovereign risk, financial institutions and other segments— and to make them comparable with the external ratings of rating agencies, the Bank has a so-called master rating scale.

The equivalence is established through the probability of default associated with each rating. Internally calibrated PDs are compared against the default rates associated with the external ratings, which are published periodically by rating agencies.

(Thousands of Brazilian Reais)

Internal Rating	Probability of Default	Equivalence with: Standard & Poor's	Moody's
9.3	0.017%	AAA	Aaa
9.2	0.018%	AA+	Aa1
9.0	0.022%	AA	Aa2
8.5	0.035%	AA−	Aa3
8.0	0.06%	A+	A1
7.5	0.09%	A	A2
7.0	0.14%	A−	A3
6.5	0.23%	BBB+	Baa1
6.0	0.36%	BBB	Baa2
5.5	0.57%	BBB−	Baa3
5.0	0.92%	BB+	Ba1
4.5	1.46%	BB	Ba2
4.0	2.33%	BB/BB−	Ba2/Ba3
3.5	3.71%	BB−/B+	Ba3/B1
3.0	5.92%	B+/B	B1/B2
2.5	9.44%	B	B2
2.0	15.05%	B−	B3
1.5	24.00%	CCC	Caa1
1.0	38.26%	CC/C	Caa1/Caa2

II.3 Observed loss: measures of cost of credit

To supplement the use of the advanced models described above (see related data in the "Economic Capital" section), other habitual measures are used to facilitate prudent and effective management of credit risk based on observed loss.

The cost of credit risk at the Bank is measured using different approaches: variation in non-performing loans in the recovery process (ending doubtful assets − beginning doubtful assets + assets written off − recovery of assets written off), net credit loss provisions (provisions to specific allowances − recovery of assets written off); and net assets written off (assets written off − recovery of assets written off).

II.4 Credit risk cycle

The risk management process consists of identifying, measuring, analyzing, controlling, negotiating and deciding on, as appropriate, the risks incurred in the Bank's operations. The parties involved in this process are the risk taking areas, senior management and the risk function.

The process begins at senior management level, through the board of directors and the risk committee, which establishes the risk policies and procedures, and the limits and delegations of powers, and approves and supervises the scope of action of the risk function.

The risk cycle comprises three different phases: pre-sale, sale and post-sale:

- *Pre-sale:* this phase includes the risk planning and target setting processes, determination of the Bank's risk appetite, approval of new products, risk analysis and credit rating process, and limit setting.
- *Sale:* this is the decision-making phase for both pre-classified and specific transactions.
- *Post-sale:* this phase comprises the risk monitoring, measurement and control processes and the recovery process.

a. Risk limit planning and setting

Risk limit setting is a dynamic process that identifies the Bank's risk appetite by assessing business proposals and the attitude to risk.

This process is defined in the global risk limit plan, an agreed-upon comprehensive document for the integrated management of the balance sheet and the inherent risks, which establishes risk appetite on the basis of the various factors involved.

The risk limits are founded on two basic structures: customers/segments and products.

For individualized risks, customers represent the most basic level, and individual limits are established (pre-classification) when certain features, generally of relative importance, concur.

For large corporate groups a pre-classification model, based on an economic capital measurement and monitoring system, is used. As regards the corporate segment, a simplified pre-classification model is applied for customers meeting certain requirements (thorough knowledge, rating, etc.).

In the case of standardized risks, the risk limits are planned and set using the credit management programs (PGC, using the Spanish acronym), a document agreed upon by the business areas and the risk units and approved by the risk committee or its delegated committees, which contains the expected results of transactions in terms of risk and return, as well as the limits applicable to the activity and the related risk management.

b. Risk analysis and credit rating process

Risk analysis is a pre-requisite for the approval of loans to customers by the Bank. This analysis consists of examining the counterparty's ability to meet its contractual obligations to the Bank, which involves analyzing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

The risk analysis is conducted with a pre-established frequency or every time a new customer or transaction arises, depending on the segment involved. Additionally, the credit rating is examined and reviewed whenever a warning system is triggered or an event affecting the counterparty/transaction occurs.

c. Transaction decision-making

The purpose of the transaction decision-making process is to analyze transactions and adopt resolutions thereon, taking into account the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

Since 1993 the Bank has been using, among others, the RORAC (return on risk-adjusted capital) methodology for the risk analysis and pricing in the decision-making process on transactions and deals.

d. Risk monitoring and control

In addition to the tasks performed by the Internal Audit Division, the Risk Unit has a specific risk monitoring function for adequate credit quality control, which consists of local and global teams to which specific resources and persons in charge have been assigned.

This monitoring function is based on an ongoing process of permanent observation to enable early detection of any incidents that might arise in the evolution of the risk, the transactions, the customers and their environment, and the adoption of mitigating actions. The risk monitoring function is specialized by customer segment.

For this purpose a system called "special surveillance firms" (SSF) has been designed that distinguishes four categories based on the degree of concern raised by the circumstances observed (extinguish, secure, reduce and monitor). The inclusion of a company in the SSF system does not mean that there has been a default, but rather that it is deemed advisable to adopt a specific policy for this company, to place a person in charge and to set the policy implementation period. Customers classified as SSF are revised at least every six months, or every three months for those classified in the most severe categories. A company is classified as SSF as a result of the monitoring process itself, a review performed by Internal Audit, a decision made by the sales manager responsible for that company or the triggering of the automatic warning system.

Assigned ratings are reviewed at least annually, but should any weakness be detected, or depending on the rating itself, more frequent reviews are performed.

For exposures to standardized customers, the key indicators are monitored in order to detect any variance in the performance of the loan portfolio with respect to the forecasts contained in the credit management programs.

Risk control function

Supplementing the management process, the risk control function obtains a global view of the Bank's loan portfolio, through the various phases of the risk cycle, with a level of detail sufficient to permit the assessment of the current situation of the exposure and any changes therein.

Any changes in the Bank's risk exposure are controlled on an ongoing and systematic basis against budgets, limits and benchmarks, and the impacts of these changes in certain future situations, both of an exogenous nature and those arising from strategic decisions, are assessed in order to establish measures that place the profile and amount of the loan portfolio within the parameters set by the Bank.

The risk control function is performed by assessing risks from various complementary perspectives, the main pillars being control by geographical location, business area, management model, product and process, thus facilitating the detection of specific areas warranting action and for which decisions have to be taken.

II.5 Credit risk from other standpoints

Certain areas and/or specific views of credit risk deserve specialist attention, complementary to global risk management.

a. Concentration risk

Concentration risk is an essential factor in the area of credit risk management. The Bank constantly monitors the degree of concentration of its credit risk portfolios, by geographical area/country, economic sector, product and customer group.

The risk committee establishes the risk policies and reviews the exposure limits required to ensure adequate management of credit risk portfolio concentration.

From the sectorial standpoint, the distribution of the corporate portfolio is adequately diversified.

Risk and Finance areas work closely in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitization transactions, in order to optimize the risk/return ratio of the total portfolio.

b. Credit risk from financial market operations

This heading includes the credit risk arising in treasury operations with customers, mainly credit institutions. These operations are performed both via money market financing products with different financial institutions and via derivative instruments arranged for the purpose of serving our customers.

Risk control is performed using an integrated, real-time system that enables the Bank to know at any time the unused exposure limit with respect to any counterparty, any product and maturity and at any Bank unit.

Credit risk is measured at its current market value and its potential value (exposure value considering the future variation in the underlying market factors). Therefore, the credit risk equivalent (CRE) is defined as the sum of net replacement value plus the maximum potential value of the contracts in the future.

c. Sovereign risk

As a general rule, sovereign risk is the risk assumed in transactions with the central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or Republic (government debt securities) and the risk arising from transactions with public entities with the following features: their funds are obtained only from fiscal income; they are legally recognized as entities directly included in the government sector; and their activities are of a non-commercial nature.

On August 29, 2007, the sovereign risk in Brazil (with Brazil's Central Bank, including cash deposits) of Banco Real was R$24 3 billion. At December 31st, 2007 it was R$21.3 billion. On August 29th, 2008 it was R$31.8 billion, where increase from previous numbers is mostly arising from increase in volume of Government Bonds with compulsory usage

The sovereign risk exposure arose mainly from obligations to make certain deposits at the related central banks and from the fixed-income portfolios held as part of the structural interest rate risk management structure. These exposures are taken in local currency and are financed out of local customer deposits, also denominated in local currency. The number as of August 2008 incorporates Grupo Santander methodology, being important to notice that the main methodology difference is the treatment of reverse repos and that adjustments concerning this feature did not produce material changes.

The exposure of Banco Real in other countries sovereign risk in December 2007 was R$886.7 million (R$1.1 billion in Aug 2007), this position matured before the end of 2007. The complete position was in Republic of Austria.

III. MARKET RISK

III.1 Activities subject to market risk

The measurement, control and monitoring of the market risk area comprises all operations in which net worth risk is assumed. This risk arises from changes in the risk factors — interest rate, exchange rate, equities, commodity prices and the volatility thereof— and from the solvency and liquidity risk of the various products and markets in which the Bank operates.

The activities are segmented by risk type as follows:

1. *Trading:* this item includes financial services for customers, trading operations and positioning mainly in fixed-income, equity and foreign currency products.

2. *Balance sheet management:* interest rate risk and liquidity risk arising as a result of the maturity and repricing gaps of all assets and liabilities. This item also includes the active management of the credit risk inherent in the Bank's balance sheet.

III.2 Methodologies

Trading

The Bank calculates trading market risk capital requirement using a standard model provided by Brazilian Central Bank.

The standard methodology applied to trading activities by Banco Real in 2007/2008 was value at risk **(VaR)**, which measures the maximum expected loss with a given confidence level and time horizon. This methodology was based on a standard historical simulation with a 99% confidence level and a one-day time horizon. Statistical adjustments were made to enable the swift and efficient incorporation of the most recent events that condition the level of risk assumed. Specifically, the Bank uses a time window of 400 daily data obtained retrospectively from the reference date of the VaR calculation giving a lesser weighting to more distant observations in time.

VaR is not the only measure. It is used because it provides a good reference of the level of risk incurred by the Bank. However, other measures are simultaneously being implemented to enable the Bank to exercise greater risk control in all the markets in which it operates.

One of these measures is scenario analysis, which consists of defining behavior scenarios for various financial variables and determining the impact on results of applying them to the Bank's activities. These scenarios can replicate past events (such as crises) or, conversely, determine plausible scenarios that are unrelated to past events. Together with VaR, they make it possible to obtain a much more complete spectrum of the risk profile.

Lastly, due to their atypical nature, derivatives are controlled by assessing specific measures on a daily basis. In the case of derivatives, these measures are sensitivities to fluctuations in the price of the underlying (delta and gamma), in volatility (vega) and in time (theta).

Balance-sheet management

The Asset and Liability Management area is responsible for managing the balance sheet interest rate risk. The aim pursued by Asset and Liability Management is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Bank's economic value, whilst maintaining adequate liquidity and solvency levels.

The interest rate risk is generated through the behavioral nature of the respective commercial products. These activities involve: credit cards, current and saving accounts, consumer loans and mortgages etc.

Decisions affecting the management of these risks are taken through the ALCO committees. On the basis of the balance-sheet interest rate position, and considering the market situation and economy outlook, ALCO adopts the necessary financial measures to align the interest exposure with that desired by the Bank.

These measures can range from the taking of positions on markets to the definition of the interest rate features of commercial products during the product approval process.

Interest Rate Risk Metrics

The Bank uses two complementary risk metrics to control the interest rate risk profile of the balance sheet. One is the market value change for one basis point in the yield curve and the second is the sensitivity of the net interest margin to changes in the short term interest rate.

The interest rate exposure considers different types of instrument and risk factors and customer behavior (prepayment, deposit modeling etc). The foreign exchange position is managed in the trading books.

a) Net interest margin (NIM) sensitivity

The sensitivity of the net interest margin measures the change in the expected Net Interest Margin based on the accrual system of accounting for all their assets and liabilities for a specific period (12 months) given a shift in the interest rate curve.

The sensitivity of the net interest margin is calculated by simulating the margin both for a scenario of 100 bps instantaneous changes in the interest rate curve and for the current scenario, the sensitivity being the difference between the two margins so calculated. No new production is assumed in the balance sheet (run off).

b) Market value of equity (MVE) sensitivity

The sensitivity of the market value of equity is a complementary measure to the sensitivity of the net interest margin.

This sensitivity measures the interest rate risk implicit in the market value of equity based on the effect of changes in interest rates on the present values of financial assets and liabilities.

Liquidity Risk

Liquidity risk is defined as the current or prospective risk to earnings and capital arising from a bank's inability to meet its liabilities when they become due without incurring unacceptable losses.

The Liquidity policy's control seeks to ensure that sufficient liquidity is available to honor withdrawals of deposits and meet the liquidity requirements arisen from the bank's business plan.

The liquidity is managed in three levels: (i) at the daily activities level, which objective is to measure and manage the available cash, (ii) at the structural balance sheet liquidity profile level, which aims to measure the Bank's liquidity texture by the capacity to face potential cash outflows through the analysis of the liquidity gap report and liquidity ratios and, (iii) at a proactive level by the application of stress test scenarios and an adequate contingency plan setting out a defensive management framework allowing the Bank to keep the liquidity risk in a manageable range

1) Daily cash-flow control

Everyday Financial Markets receives the available liquidity opening of business report, which is updated frequently until the close of business. This position stems from information originated in the back-office legacy systems and also applies to the subsidiaries of the group in Brazil.

2) Structural Liquidity Profile

2.a) Liquidity gap profile

The liquidity gap profile report shows the forecasted maturities over time and the resulting liquidity level. This report aggregates cash flows by inflows/outflows and risk factors. These cash flows are based on the following:

Contractual maturities:- are those where the asset or liability item has a maturity date that is expected to be the actual maturity date.

Characteristic maturities:- are those where the actual behavioral characteristics of certain asset and liability items differ significantly from their contractual characteristics. These asset and liability items are modeled to determine their assumed maturity profiles.

2.b) Liquidity ratios

The liquidity ratios are used as a medium-term monitoring tool, depicting structural balance sheet liquidity mismatches. The following ratios are utilized:

Ratio	Characteristic
Liquid assets/Volatile funding	This ratio shows to what extent liquid assets would match volatile funding. A minimum level should prevent losses caused by shortfalls in non-stable funding
(Liquid assets + Less Liquid Assets)/Volatile Funding	This ratio shows to what extent liquid and non liquid assets match volatile funding. A minimum level should prevent losses caused by shortfalls in volatile funding.
Non-Liquid Assets/Stable Funding	This ratio shows to what extent non-liquid assets are financed by stable funding. A minimum level should restrict dependence on volatile funding
(Liquid Assets + Less Liquid Assets)/Undrawn Committed Facilities	This ratio shows to what extent liquid and less liquid assets would cover off-balance sheet commitments. A minimum level should prevent severe losses caused by shortfall of funds.

3. Proactive Liquidity Management

3.a) Liquidity Stress

The liquidity texture of the bank is stress tested to verify the adequacy of the bank's structural funding and liquid asset portfolio.

Three scenarios are defined with three different degrees of severity to evaluate the liquidity risk under stress. The liquidity erosion in each scenario is presented to ALCO members that define the minimum liquidity to support adverse liquidity situations.

3.b) Contingency Funding Plan

The purpose of the Contingency Funding Plan — CFP is to ensure that the Bank has a liquidity management framework sufficiently robust to withstand a range of crisis resulted by the Liquidity Stress.

The activation of CFP occurs when one of the scenarios is considered existing or imminent. The Liquidity Committee will be called to congregate immediately and automatically after the CFP activation. During the period of CFP duration the Liquidity Committee must congregate with daily minimum frequency; moreover extraordinary meetings can be asked when necessary. It is concerned to the committee the determination of the actions that minimize the crisis effects, according to the basic plan delineated by the CFP for each kind of crisis scenario.

This CFP policy is reviewed on a semi-annual basis.

III.3 Control system

Limit setting

The limit setting process is performed together with the budgeting activity and is the tool used to establish the assets and liabilities available to each business activity. Limit setting is a dynamic process that responds to the level of risk considered acceptable by senior management.

Objectives of the limits structure

The limits structure requires a process to be performed that pursues, the following objectives:

1. To identify and delimit, in an efficient and comprehensive manner, the main types of financial risk incurred, so that they are consistent with business management and the defined strategy.

2. To quantify and communicate to the business areas the risk levels and profile deemed acceptable by senior management so as to avoid undesired risks.

3. To give flexibility to the business areas for the efficient and timely assumption of financial risks, depending on market changes, and for the implementation of the business strategies, provided that the acceptable levels of risk are not exceeded.

4. To allow business makers to assume risks which, although prudent, are sufficient to obtain the budgeted results.

5. To delimit the range of products and underlyings with which each Treasury unit can operate, taking into account features such as assessment model and systems, liquidity of the instruments involved, etc.

III.4 Risks and results

Trading

The average VaR of Banco Real's trading portfolio in 2007, was at R$4.1 million and R$6.3 million for 2008 (Jan-Aug). The VaR figures regarding Banco Real as of August 08, Dec 07 and August 07 were R$5.5 million, R$6.5 million and R$9.7 million respectively. The dynamic management of this profile enables the Bank to change its strategy in order to capitalize on the opportunities offered by an environment of uncertainty.

A. Balance sheet management

A1. Interest rate risk

Quantitative risk analysis

As of August 29, 2008, the risk consumption, measured in terms of 100 b.p. sensitivity of the MVE was negative by R$407.7 million ,The net interest margin risk at one year, measured in terms of an increase in 100 b.p. was negative by R$34.2 million.

	August 29, 2007	August 29, 2008
Net interest margin sensitivity	(88.18)	(34.20)
Market value of equity sensitivity	(318.56)	(407.70)

IV. OPERATIONAL AND TECHNOLOGY RISKS AND BUSINESS CONTINUITY MANAGEMENT

IV.1 Operational Risk Management

ORM area focuses on implementing Operational Risk tools in Banco Real comprising all business ORM activities (except for Asset Management), in accordance with the local policies. Main objectives, definitions and responsibilities are defined in alignment with local regulation.

ORM is strongly engaged on spreading operational risk management culture in the organization and in improving pro-active operational risk management attitude, as well as meeting external requirements (e.g. Brazilian Central Bank).

Operational Risk Management Principles

The Framework for Operational Risk is underpinned by key principles described bellow. Banco Real has adopted these principles in order to achieve the ORM benefits and to enable effective Operational Risk Management throughout the bank.

Roles and Responsibilities

- *"Management at all levels drives ORM"*

All managers are **accountable** for Operational Risk Management within their area of responsibility (their domain). They must ensure that the Framework is fully implemented. Once implemented they must actively include Operational Risk in their decision making processes. By implementing the ORM Framework, managers will obtain a better understanding of their exposures to Operational Risk. They are also expected to enhance Operational Risk awareness in their domain and across the Group, where possible.

- *"ORM is everyone's responsibility"*

The **responsibility** for Operational Risk Management within the bank rests with each and every employee. Employees are expected to be aware of Operational Risk as they are performing their day-to-day business activities, and specifically to escalate relevant issues on actual or potential events to their own and/or to other relevant managers. To ensure the implementation of the Framework Senior Management must ensure that the responsibilities of employees and managers are clearly defined down to the most appropriate level and effectively communicated. Any existing responsibilities should be amended appropriately.

- *"ORM Professionals are a partner in business"*

The ORM Function acts in partnership with line management and with other risk disciplines to jointly carry forward ORM activities within the bank.

- *"ORM Professionals coordinate across the ORM Universe"*

The ORM universe encompasses all activities related to the broad scope of Operational Risk. This includes several activities from other Functions, called hereafter the "Control Related Functions". These Functions are closely linked with Operational Risk matters: SOXA, Compliance, Group Risk Management, Information Security, BCM, etc. While the responsibility and accountability for managing these activities lies within the Functions themselves, the activities are considered to fall within the ORM universe.

ORM Framework

- *"ORM is based on a common language"*

Shared definitions and standard classifications (e.g. Operational Risk taxonomy) form the common language of ORM. Operational Risk Management also relies on definitions and standards provided by other Group Functions including the Control related Functions (e.g. SOXA controls framework).This ensures a proper understanding of Operational Risk throughout the bank and overall consistency.

- *"ORM uses common standards"*

The ORM Framework, forms the cornerstone of ORM within the Bank. It sets the standards for the roll-out and execution of ORM policies, processes, methodologies and tools throughout the Group.

- *"Operational Risk is defined by analysing cause-event-effect"*

Operational Risk Management relies on the analysis of cause-event-effects and the controls surrounding them, in order to prevent the occurrence or reoccurrence of events and/or to reduce the severity of events. One of the ORM objectives is to take actions bringing the risk exposure in line with risk appetite. The definition of actions is facilitated by analysing adequately the potential or historical risk events to identify the causes that lead to the loss. The cause-event-effect framework, used in conjunction with the process & controls framework, supports the bank in this analysis activity.

ORM Approach

- *"Balancing Risks and Rewards"*

By correctly balancing risks and rewards, businesses are able to make accurate decisions in line with their risk appetite. Risk is inherent in doing business and needs to be managed appropriately in all decisions. When analysing historical or potential risk events, the bank evaluates whether the considered risk is in line with business objectives. Depending on the cases, mitigation actions have to be taken or the risks can be accepted.

- *"Manage risks where it matters"*

Planning and prioritization of Operational Risk activities focus on areas where Operational Risks actually occur and on those that support the strategic directions of the Bank. In parallel, for the most effective and efficient implementation of the Framework, the ORM process is performed at the right level of granularity.

In order to guarantee that operational risk management is aligned with business strategy and senior management is engaged in ORM issues, an ORM Executive committee was put in place in 2002.

ORM Executive Committee

Mandate:

The Local ORM Committee (LORM) provides direction regarding ORM policies and practices into the day-to-day activities of the BU. The committee meets every two months.

The main activities of the LORM are:

- To ensure that the operational risk management roles and responsibilities are clearly defined throughout the bank
- To supervise and assure that the strategies and policies approved by the ORM Committee is implemented thoughout the bank
- To ensure that the Senior Management is aware of high operational risks the bank is exposed to.
- To strengthen the operational risk management function in the organization, including the operational risk methodologies and indicators.
- To ensure conformity with regulatory requirements.

Membership:

- Banco Real ExCo members, including the CEO of the bank
- CRO of Banco Real
- Head of Operational Risk
- Head of Audit
- Head of Compliance
- Head of the Security Committee

Quorum: Minimum two EVPs

IV.2 TECHNOLOGY RISKS AND BUSINESS CONTINUITY MANAGEMENT

The Business Continuity Management (BCM) is responsible for the identification of impacts that could threaten the operational continuity of the Bank and for supplying a resilient structure able to offer effective responses and to ensure the protection of the persons, the interests of shareholders and the reputation of the Bank.

Responsibilities and Attributions:

For the development of these responsibilities, the area uses and develops corporate policies focused in business recovery, the awareness, the preparation and in the appropriate maintenance of the Business Continuity Plans.

The adopted model includes:

- Preparation of the Business Impact Analysis (BIA);

- Approval of BIA results and the definition of business recovery;
- Execution of the Business Continuity Plan (PCN — Planode Continuidade de Negócios);
- Implementation in the contingency site for items considered critical and relevant;
- Application of tests and trainings.

Main attributions:

The main attributions of the area of BCM include:

- Development and maintenance of policies and rules for the organization and its regulators;
- Implement and maintain the Business Continuity Management (BCM) for the critical areas of the business;
- Coordinate the tests for the Business Continuity Plan;
- Provide management for the contingency sites;
- Develop content and provide trainings and simulations for focal points and key personnel looking to guarantee the preparation of the persons for eventual incidents;
- Coordinate the Grupo de Resposta a Crise (Crisis Management Group), as well as the Plan for administration of crises;
- Collect data for the historical base of data of events of Business Continuity Group (BCG);
- Develop materials and ways for the dissemination of the culture of BCG for the Organization

Differential

As the principal result obtained, we highlight the formation of the Crisis Management Group, in which the organization manages the impact of an event / incident / crisis until it is under control or contained, not generating significant impacts in the continuity of the business for the organization.

This group counts with a documented plan of action, clearly defined and available to use during any crisis, including the responsible persons, the services and principal actions required for the appropriate management of the crisis up to its control.

V. REPUTATIONAL RISK

1. Reputational Risk

Banco Real believes that the fundamental precept of its long-term business sustainability and shareholder value creation requires proper conduct of the business activities in accordance with Banco Real Corporate Values.

Compliance risk has been defined as the risk of legal or regulatory sanctions, material financial loss, or reputational harm Banco Real may suffer as a result of its failure to comply with relevant laws, regulations, principles and rules, standards and codes of conduct applicable to its activities, in letter and in spirit.

Banco Real defines reputational risk as a risk arising from negative public opinion, irrespective of whether this opinion is based on facts or merely on public perception.

Such risk can result from either:

- Actions and behaviour of the organisation or its staff like products sold, services provided or interactions with stakeholders, which constitutes direct risk.
- Actions and behaviour of external parties, which constitutes indirect risk.

2. Overview

Banco Real is therefore committed to contribute positively to Sustainable Development, ensuring long-term business success while contributing towards economic and social development, a healthy environment and a stable society.

Effective risk management is a prerequisite for the continued success of any bank.

A key component of risk management is to ensure that the bank's reputation is preserved and enhanced through selecting to engage responsibly in the right business, with the right clients.

A sound reputation represents a bank's social license to operate, which, whilst not a formal banking license, is a license given by our stakeholders and upon which long-term growth and ultimately the sustainability of our business depends.

In recognition of this, we have developed several reputational risk policies to identify, assess and manage the non-financial issues present within our business engagements. These policies and standards are referred to as Reputational Risk Management policies.

This pursuit of excellence requires that Banco Real is accountable for its actions, is open about them and that Banco Real's Board Members and employees are therefore ultimately responsible for the bank's reputation.

The Compliance Department is responsible for assisting the bank to identify measure and mitigate a significant part of the compliance risk but not in its entirety. Other key stakeholders in the process include the Managing Board, Senior Management, Finance Department, Human Resources, Risk Department and Legal.

The main activities of compliance functions are concentrated on specific elements of financial services legislation and its associated rules, regulations, codes of conduct and market standards. These are predominately "conduct of business" requirements and do not include capital management issues (i.e. capital adequacy, accounting standards and Sarbanes-Oxley) which are the responsibility of Finance Department, Operational Risk and Audit.

3. High-level principles

The high-level principles are supported by principles of good compliance:

- The compliance function will be effective and efficient in its use of Banco Real's resources.
- The compliance function will ensure appropriate measures of risk control based on understanding of Banco Real's strategy and business.

- The compliance function will endeavour, where it can, to take a proactive approach to compliance risk, understanding that monitoring, education and communication will often achieve more than reactive remedies.

4. Function and tasks of Compliance

a. To identify, measure and assess compliance risks

- To proactively identify, measure and assess the impact of compliance risk generated internally: by our businesses, structures, products and employees; and externally: by actual or proposed changes to laws and rules as well as to the regulatory environment and by assessing changes laws, rules and in interpretation by regulators of existing regulations and standards.
- To participate in the industry dialogue concerning emerging regulations and provide Banco Real's views.
- To benchmark against competitors/peer group.
- To advise the bank on the appropriate authorisations and licenses for its businesses.

b. To assist in managing and mitigating Compliance Risk

- To develop appropriate and proportionate compliance specific written policies, standards and procedures to facilitate compliance with relevant external laws and regulations which reflect the bank's compliance risk appetite where necessary.
- To review the policies, standards and procedures of the businesses and other support functions to ensure they are consistent with our compliance obligations.
- To provide expert compliance advice and input on specific businesses, issues or transactions.

c. To educate and train our employees on compliance matters

- To provide a comprehensive training programme on compliance-related matters to compliance staff and our business partners.
- To measure the effectiveness of the training programme and report this to management

d. To monitor key compliance activities and report appropriately to management.

- To develop and implement effective compliance-monitoring programs.
- To provide management reports to senior management, Managing Board and committees on compliance activities, issues and performance indicators.
- To provide compliance reporting to our regulators where required.
- To follow-up on monitoring output, and ensure appropriate corrective action is taken.
- To escalate appropriately issues that, in the judgment of the function have not been adequately dealt with.

e. To provide an annual Compliance Programme

- To create and agree with our business partners on an annual programme of compliance activities designed to meet the bank's compliance obligations.
- To agree with senior management and the business that sufficient resources are available to Compliance in order to carry out its responsibilities effectively.

5. Organisation and independence of Compliance

The compliance function within the bank is the independent oversight on behalf of senior management of those core processes and related policies and procedures that seek to ensure the bank is in conformity with industry-specific laws and regulations in letter and spirit, thereby helping to maintain the bank's reputation.

VI. COMPLIANCE WITH THE NEW REGULATORY FRAMEWORK

The Banco Real has assumed from the outset a firm commitment to the principles underlying the "Revised Framework of International Convergence of Capital Measurement and Capital Standards" (Basel II). This framework allows entities to make internal estimates of the capital (advanced approach) they are required to hold in order to safeguard their solvency against events caused by various types of risk. As a result of this commitment, the Banco Real is planning the implementation of the new capital requirement directives according to the Brazilian Central Bank rules. The Banco Real senior management is totally aware on implications of the implementation of the New Capital Accord.

In the specific case of credit risk, the implementation of Basel II entails the recognition, for regulatory capital purposes, of the internal models that have been used for management purposes. Currently, Banco Real adopts standardised approach according to the local rules.

The Bank intends to apply, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks. Given the medium-low risk profile characterizing Real's business activities, since it focuses primarily on commercial banking (corporations, SMEs and individuals), the internal models implementation gave rise to significant capital savings under the so-called Pillar 1, which establishes the capital requirements to cover credit, market and operational risks. Similarly, the significant diversification of the Bank's risk and business profiles will enable it to offset the additional capital requirements arising from the Internal Capital Adequacy Assessment Process (presented under Pillar 2), which takes into account the impact of risks not addressed under Pillar 1 and the benefits arising from the diversification among risks, businesses and geographical locations.

In addition, the Banco Real will start in 2008 with the project for the progressive implementation of the technology platforms and methodological developments required for the roll-out of the AIRB approaches for regulatory capital calculation purposes. Therefore, the Bank expects to apply advanced approaches for the calculation of regulatory capital requirements at its business units in Brazil in 2013, after the required approval from the supervisory authorities has been obtained.

As regards the other risks explicitly addressed under Pillar 1 of Basel II, the Banco Real intends to use its internal model for market risk with respect to the Treasury area's trading activities in Brazil. As far as operational risk is concerned, the Bank decided to use the standardized approach for regulatory capital calculation purposes, since it considers that the use of AMA approaches for this risk is somewhat premature.

Pillar 2 is another significant line of action under the Basel II Corporate Framework. In addition to reviewing and strengthening the methodology supporting the economic capital model, the technology was brought into line with the platform supporting Pillar 1, so that all the information on credit risk will come from this source when Brazil implement internal models under Pillar 1.

Internal validation of risk models

Internal validation is a pre-requisite for the supervisory validation process. A specialized unit of the Entity, with sufficient independence, obtains a technical opinion on the adequacy of the internal models for the intended internal or regulatory purposes, and concludes on their usefulness and effectiveness. This unit must also assess whether the risk management and control procedures are adequate for the Entity's risk strategy and profile.

Internal model validation at the Banco Real encompasses credit risk models, market risk models, option pricing models and the economic capital model. The scope of the validation includes not only the more theoretical or methodological aspects, but also the technology systems and the quality of the data they provide, on which their effective operation relies, and, in general, all the relevant aspects of advanced risk management (controls, reporting, uses, involvement of senior management, etc.). Therefore, the aim of internal validation is to review quantitative, qualitative, technological and corporate governance-related aspects.

The internal validation function is located, at corporate level, within the Integrated Risk Control and Internal Risk Validation area (CIVIR) and reports directly to head office (the third deputy chairman of the Bank and to the chairman of the risk committee) in Madrid.

It should be noted that the Banco Real's corporate internal validation framework is fully consistent with the internal validation criteria for advanced approaches. Accordingly, the Bank maintains the segregation of functions between internal validation and internal audit, which, in its role as the last layer of control at the Bank, is responsible for reviewing the methodology, tools and work performed by internal validation and for giving its opinion on the degree of effective independence.

VII. ECONOMIC CAPITAL

Introduction

The Group EC project that was carried out in 2004 resulted in methodologies to quantify the Economic Capital for several risk types (including credit risk) and a methodology to combine them (the so-called two-step procedure). In 2005 it was extended by integrating country risk within credit risk and by the incorporation of asset securitisations in the methodology. In 2006 a methodology for private equity transactions was developed and approved. In 2007 consumer simulations are harmonized and the integrated procedure replaces the two-step procedure. In addition, a methodology for defaulted consumer assets is implemented.

In addition to these methodology updates, several parameters (e.g. PDs, LGDs, EADs and correlations) are updated on an annual basis. We use the terminology Credit Risk to reflect both credit and country risk. Given the importance of credit risk measured by its fraction of total risk, complex models have been developed over a number of years.

Economic capital aims to be a comprehensive, consistent and comparable measure of risk which yields a proper reflection of the level of risk in each business unit. Economic Capital is central to the bank's risk and portfolio management, performance management, capital adequacy assessment and capital allocation.

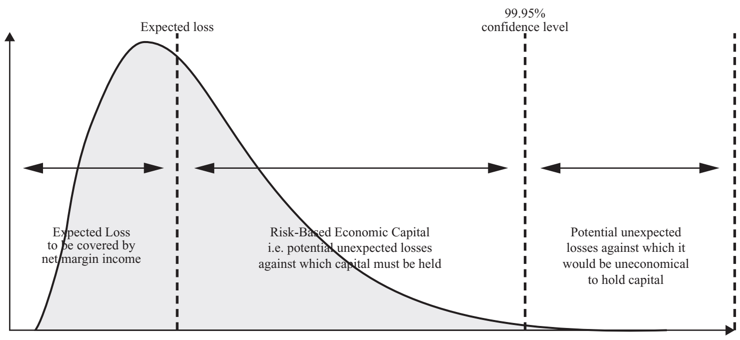
Definition of Economic Capital

Statistically speaking, the bank can expect to incur some level of losses in the future. For example for credit risk, experience tells us that some fraction of our counterparties will default on their obligations. The level of losses that we can statistically expect to incur is called the *expected loss (EL).*

In an adverse year, the actual losses may exceed the expected losses by some amount. This amount is called the *unexpected loss (UL).* The size of the unexpected loss is essentially the risk that the bank runs. Expected loss does not represent risk, as we should count on incurring it. In fact, expected loss should be covered directly in the pricing of transactions. The pricing of transactions will, however, in general not cover potential unexpected losses directly. The bank therefore holds capital to protect itself against unexpected losses.

Economic capital (EC) is the amount of capital that the bank must possess to protect itself against potential unexpected losses with a high degree of certainty. Economic capital is a direct function of the existing exposures of the bank to all risks. To determine economic capital, it is thus necessary to determine a probability distribution of potential losses that represents all risks that the bank runs. The "degree of certainty" that is mentioned in the definition of economic capital can be specified by the management of the bank, and is related to its desired risk profile. For the bank it has been set at 99.95%. The amount of economic capital that is calculated using the methodologies described hereafter thus represents an estimate of the potential unexpected loss that will only be exceeded in 0.05% of all possible future states of the world.

The following graph depicts the probability distribution of losses, and illustrates the concepts of expected losses and economic capital.



Coverage of risk types

The bank's regular economic capital calculations currently cover the following risk types:

- Credit and country risk
- Operational risk
- Market risk
- Interest-rate risk
- Business risk

(Thousands of Brazilian Reais)

Time horizon

As economic capital plays a central role in the annual performance contract of the bank, a one-year horizon is used in the EC calculations for all risk types. Possible management intervention to reduce risk during this one-year horizon is taken into account in the market risk and interest-rate risk EC calculations.

Brazil's Risk Profile

The risk profile of Brazil, as of June 2008, is distributed as follows:

Risk Type	Economic Capital
Credit and Country Risk	63.0%
Market Risk	0.5%
Interest Rate Risk	0.9%
Business Risk	12.2%
Operational Risk	15.6%
Other Risk Types	7.8%
Total	**100.0%**

The evolution of EC figures is depicted in the table below:

Risk Type	June 2008	December 2007	August 2007	June 2007
Credit and Country Risk	4,513,858	4,176,714	3,854,213	3,471,045
Market Risk	35,113	14,499	19,445	20,592
Interest Rate Risk	64,029	121,826	(38,323)	66,750
Business Risk	871,939	552,276	510,504	498,450
Operational Risk	1,121,388	1,048,496	1,003,165	988,691
Other Risk Types	559,644	1,478,453	1,337,251	1,261,382
Total	**7,165,971**	**7,392,264**	**6,686,255**	**6,306,910**

VIII. TRADING BOOK SENSITIVITY ANALYSIS

From a local regulatory point of view, Banco Real's trading risk management is focused on portfolios and risk factors pursuant to BACEN's regulations and good international practices.

As in the management of market risk exposure, financial instruments are segregated into trading and banking portfolios according to the best market practices and the transaction classification and capital management criteria of the Basel II New Standardized Approach of BACEN. The trading portfolio consists of all transactions with financial instruments and products, including derivatives, held for trading, and the banking portfolio consists of core business transactions arising from the different Bank business lines and their possible hedges. Accordingly, based on the nature of the Bank's activities, the sensitivity analysis was fully applied to the trading portfolio, as this portfolio represents the exposures that may have impacts on the Bank's income.

The table below summarizes the stress values generated by the Bank's corporate systems, related to the trading portfolio, for each one of the portfolio scenarios as of the dates specified on each table and does not necessarily reflect the current position, in view of the market dynamics and the Bank's activities.

Banco Real trade book sensitivity

Thousands of Reais (R$)

	29/08/2008		
Risk Factor	**Scen. 1**	**Scen. 2**	**Scen. 3**
USD Coupon	*(24)*	*1,327*	*8,204*
Other currency coupons	*16*	*158*	*788*
Pre fix rate	*(601)*	*(6,013)*	*(30,065)*
Shares and Index ratios	*39*	*98*	*197*
Inflation	*(579)*	*(5,786)*	*(28,928)*
Others	—	—	—
TOTAL	*(1,149)*	*(10,216)*	*(49,804)*

	29/08/2007		
Risk Factor	**Scen. 1**	**Scen. 2**	**Scen. 3**
USD Coupon	*(13,901)*	*(36,494)*	*(79,955)*
Other currency coupons	*26*	*262*	*1,308*
Pre fix rate	*(91)*	*(905)*	*(4,526)*
Shares and Index ratios	—	—	—
Inflation	*(29)*	*(290)*	*(1,449)*
Others	—	—	—
TOTAL	*(13,995)*	*(37,427)*	*(84,622)*

Scenarios 2 and 3 above consider the deterioration situations established in CVM Instruction 475, of December 17, 2008, considered as of low probability. According to the strategy defined by Management, if signs of deterioration are detected, actions are taken to minimize possible negative impacts.

Scenario 1: usually reported in our daily reports and corresponds to an upward shock of 10 basis points on the local and foreign currencies coupon curves, plus a shock of 10% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of ten basis points on the volatility surface of currencies used to price options.

Scenario 2: corresponds to an upward shock of 100 basis points on the local and foreign currency coupon curves, plus a shock of 25% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of 100 base points on the volatility surface of currencies used to price options.

Scenario 3: corresponds to an upward shock of 500 basis points on the local and foreign currency coupon curves, plus a shock of 50% on the currency rates (upwards) and stock market (downwards) spot prices, and an upward shock of 500 basis points on the volatility surface of currencies used to price options.

IR USD: all products with price changes tied to changes in the US currency and the US dollar interest rate.

IR Other Currency: all products with price changes tied to changes in any currency other than the US dollar and the US dollar interest rate.

Fixed rate (BRL) — in Brazilian reais: all products with price changes tied to changes in interest rate in Brazilian reais.

Equities and indices: stock market indices, shares and options tied to share indices or the shares themselves.

Inflation: all products with price changes tied to changes in inflation coupons and inflation indices.

Other: any other product that does not fit in the classifications above.

44. Transition to International Financial Reporting Standards

The Bank's accounting policies were changed on January 1, 2007 to comply with IFRS. The transition to IFRS is accounted for in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards," with January 1, 2007 as the date of transition. The changes in accounting policies as a consequence of the transition to IFRS and the reconciliation of the effects of the transition to IFRS are presented below. The Bank prepared its opening balance sheet at January 1, 2007, by applying the accounting policies and rules and the measurement bases described in Note 2, with the exception of the following exemption, as permitted by IFRS 1 and described below:

- *Business combinations:*

  The Bank elected not apply IFRS 3 retrospectively to business combinations that occurred prior to January 1, 2007, the date of transition. By electing not to apply IFRS 3 retrospectively, we have:

  - Recognised all of the related assets and liabilities at the date of transition that were acquired or assumed in a past business combination, except for those that would not qualify as an assets or liability under IFRS.

  - Used the carrying amount under Brazilian GAAP of assets acquired and liabilities assumed in those business combinations based on their deemed cost under IFRS at that date.

  - Used the carrying amount of goodwill in the opening IFRS statement of financial position based on its carrying amount under previous GAAP at the date of transition to IFRS, without any adjustments for previous amortization or any other items.

  - Measured non-controlling interests and deferred tax following the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

  - Fair value or revaluation as deemed cost:

  The Bank elected to use the carrying amount under Brazilian GAAP as its deemed cost for tangible assets.

• Designation of previously recognized financial instruments:

The Bank elected to designate certain investments in debt securities as "available for sale" and certain loans receivables and deposits as "fair value through profit or loss" on the date of transition.

• Share-based payment transactions:

The Bank elected to apply IFRS 2 to the liabilities arising from share-based payment transactions that were settled before the date of transition to IFRS.

The transition to IFRS resulted in the following changes in accounting policies:

a) *Redesignation of financial instruments to available-for-sale:*

Under BR GAAP, the Bank accounts for certain investments in equity instruments which are accounted at cost. Under IFRS, the Combined Companies have classified these investments as available-for-sale, measuring them at fair value with the changes recognized in other comprehensive income, under the scope of IAS 39 "Financial Instruments: Recognition and Measurement".

b) *Impairment of Other Financial Assets:*

Under IFRS, the Bank estimated the impact of accounting for allowance for financial assets following the criteria described in Note 2.g, which is different, in certain aspects, to the criteria adopted under BR GAAP.

c) *Accounting under equity method:*

Under Brazilian GAAP, investments in certain associates are accounted for at cost, as they do not meet the criteria, under these accounting principles, to be accounted for using the equity method. Such criteria include total ownership of at least 10% and the relevance of the investment in the associate in relation to the investor's total equity. Under IFRS, in accordance with IAS 28 "Investments in Associates", an investment in an associate which the investor has significant influence, even if less than 20% of ownership, is accounted for using the equity method of accounting. In accordance to Resolution CMN No. 3.619, BR GAAP has been amended to converge with the guidance provided by IAS 28, effective December, 2008.

d) *Impairment losses on tangible assets:*

Under BR GAAP, impairment losses on certain tangible assets relating to the Bank's branches were recognized during the year ended December 31, 2008 as a result of the adoption of CPC 01, "Reduction in the Recoverable Value of Assets." CPC 01 changed the methodology used in BR GAAP to converge to IFRS (IAS No. 36, "Impairment of Assets."). Prior to the issuance of CPC 01, the Bank grouped together certain branch assets when evaluating for recoverability. Under IFRS, the Bank evaluates these assets for impairment at the level of each individual branch, in which for the Combined Companies represent a cash generating unit in accordance with IAS 36 "Impairment of Assets". This difference only impacted the Bank's balance sheet at January 1, 2007 and for the year ended December 31, 2007, since the accounting policies converged during 2008.

e) *Impairment of goodwill:*

Under BR GAAP, the discount rate used for benefit obligations reflects the nominal interest rate. Under IFRS, in accordance with IAS 19 "Employee Benefits", the rate used to discount post-employment benefit obligations was determined by reference to market yields at the end of the reporting period on high quality bonds.

f) *Income taxes:*

Deferred income taxes were recorded on the differences between BR GAAP and IFRS where applicable. Additionally, under BR GAAP, the Bank classifies PIS and COFINS taxes as operating expenses. Under IFRS, as described in Note 2.w, PIS and COFINS are considered a profit-base component (net basis of certain revenues and expenses), therefore and accordingly to IAS 12 it is recorded as income taxes.

g) *Classification of financial instruments at fair value through profit or loss:*

Under IFRS, the Bank designated certain financial instruments as "fair value thought profit or loss" since this accounting eliminates an accounting mismatch, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

h) *Deferral of financial fees, commissions and inherent costs under effective interest rate method:*

Under IFRS, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", financial fees, commissions and inherent costs that are integral part of effective interest rate of financial instruments measured at amortized cost are recognized in profit or loss over the term of the corresponding contracts. Under BR GAAP, these fees and expenses are directly recognized in the profit or loss when received or paid.

i) *Mark to Market of Foreign Currency Forward:*

Under IFRS, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", foreign currency forward contracts are derivatives that are recorded at fair value. Under BR GAAP, these contracts are recorded at amortized cost.

j) *Reversal of amortization of Goodwill*

Under BR GAAP, goodwill is amortized systematically over a period of up to 10 years. Under IFRS, in accordance with IAS 38 "Intangible Assets", goodwill is not amortized, but instead, is tested for impairment, at least annually, and whenever there is an indication that the goodwill may be impaired; by comparing its recoverable amount with its carrying amount.

a) Combined balance sheet: reconciliation at January 1, 2007 — Assets, liabilities and equity

	Thousands of Reais			
	Note	BR GAAP	Adjustments	IFRS
Cash and balances with central banks		9,295,481	—	9,295,481
Financial assets held for trading	i	5,233,171	41,800	5,274,971
Other financial assets at fair value through profit or loss	g	—	270,725	270,725
Available-for-sale financial assets	a	15,814,776	(272,230)	15,542,546
Loans and receivables	h	59,640,099	(11,600)	59,628,499
Non-current assets held for sale	d	82,699	(15,500)	67,199
Investments	c	302,050	14,850	316,900
Tangible assets	d	950,230	(18,091)	932,139
Intangible assets	e	1,151,032	(35,100)	1,115,932
Goodwill	e	619,025	(35,100)	583,925
Others		532,007	—	532,007
Tax assets	f	2,742,176	86,833	2,829,009
Current		256,505	—	256,505
Deferred	f	2,485,671	86,833	2,572,504
Other assets		1,514,561	—	1,514,561
TOTAL ASSETS		**96,726,275**	**61,687**	**96,787,962**
Financial liabilities held for trading		1,453,993	—	1,453,993
Financial liabilities at amortised cost		79,816,818	—	79,816,818
Hedging Derivatives		3,755	—	3,755
Provisions		2,929,870	—	2,929,870
Tax liabilities	f	672,779	83,037	755,816
Current		402,341	—	402,341
Deferred	f	270,438	83,037	353,475
Other liabilities		1,368,062	—	1,368,062
TOTAL LIABILITIES		**86,245,277**	**83,037**	**86,328,314**
Shareholders' equity		10,334,002	(25,475)	10,308,527
Minority interests		4,554	—	4,554
Valuation adjustments		142,442	4,125	146,567
TOTAL EQUITY		**10,480,998**	**(21,350)**	**10,459,648**
TOTAL LIABILITIES AND EQUITY		**96,726,275**	**61,687**	**96,787,962**

		Thousands of Reais
	Note	01/01/2007
Shareholders' equity attributed to the Bank under BR GAAP		**10,476,444**
IFRS adjustments, net of taxes		
Classification of financial instruments at fair value through profit or loss	g	4,125
Redesignation of financial instruments to available-for-sale	a	6,213
Accounting under equity method	c	14,850
Deferral of financial fees, commissions and inherent costs under effective interest rate method	h	(7,656)
Impairment of goodwill	e	(10,100)
Mark to market of foreign currency forward	i	27,588
Impairment of Other Financial Assets	b	(17,700)
Impairment losses on tangible assets	d	(22,170)
Other		(16,500)
Shareholders' equity attributed to the Bank under IFRS		**10,455,094**
Minority interest under IFRS		**4,554**
Shareholders' equity (including minority interest) under IFRS		**10,459,648**

b) Combined balance sheet: reconciliation at December 31, 2007 — Assets, liabilities and equity

	Thousands of Reais			
	Note	**BR GAAP**	**Adjustments**	**IFRS**
Cash and balances with Brazilian Central Bank		10,948,839	—	10,948,839
Financial assets held for trading		3,396,133	—	3,396,133
Other financial assets at fair value through profit or loss	g	—	146,636	146,636
Available-for-sale financial assets	a	12,948,430	(169,406)	12,779,024
Loans and receivables	h	77,592,016	(282,319)	77,309,697
Hedging Derivatives		650,959	—	650,959
Non-current assets held for sale	d	86,028	(46,583)	39,445
Investments	c	319,379	13,923	333,302
Tangible assets	d	1,070,002	(19,005)	1,050,997
Intangible assets	j	861,901	345,053	1,206,954
Tax assets	f	4,135,884	(155,682)	3,980,202
Current		399,196	—	399,196
Deferred	f	3,736,688	(155,682)	3,581,006
Other assets		985,196	—	985,196
TOTAL ASSETS		112,994,767	**(167,383)**	112,827,384
Financial liabilities held for trading	i	1,696,185	29,256	1,725,441
Other financial liabilities at fair value through profit or loss		90,672,087	—	90,672,087
Hedging Derivatives		5,210	—	5,210
Provisions		3,443,277	—	3,443,277
Tax liabilities	f	2,114,059	14,576	2,128,635
Current		1,777,384	—	1,777,384
Deferred	f	336,675	14,576	351,251
Other liabilities		1,694,667	—	1,694,667
TOTAL LIABILITIES		**99,625,485**	**43,832**	**99,669,317**
Shareholders' equity		13,304,543	(211,215)	13,093,328
Minority interests		5,402	—	5,402
Valuation adjustments		59,337	—	59,337
TOTAL EQUITY		**13,369,282**	**(211,215)**	**13,158,067**
TOTAL LIABILITIES AND EQUITY		**112,994,767**	**(167,383)**	**112,827,384**

BANCO ABN AMRO REAL S.A. AND ABN AMRO BRASIL DOIS PARTICIPAÇÕES S.A.

COMBINED FINANCIAL STATEMENTS
FOR THE PERIOD OF JANUARY 1 TO AUGUST 29, 2008 (AUDITED)
AND 2007 (UNAUDITED) AND FOR THE YEAR ENDED DECEMBER 31, 2007
(AUDITED) — (Continued)
(Thousands of Brazilian Reais)

		Thousands of Reais
	Note	2007
Shareholders' equity attributed to the Bank under BR GAAP		13,363,880
IFRS adjustments, net of taxes		
Classification of financial instruments at fair value through profit or loss	g	3,965
Redesignation of financial instruments to available-for-sale	a	1,809
Accounting under equity method	c	12,839
Deferral of financial fees, commissions and inherent costs under effective interest rate method	h	(186,330)
Reversal of amortization of goodwill	j	59,090
Mark to market of foreign currency forward	i	(19,309)
Impairment of Other Financial Assets	b	(32,200)
Impairment of Non-Financial Assets	d	(43,290)
Other		(7,789)
Shareholders' equity attributed to the Bank under IFRS		13,152,665
Minority interest under IFRS		5,402
Shareholders' equity (including minority interest) under IFRS		13,158,067

c) Combined income statement for the year ended December 31, 2007

		Thousands of Reais		
	Note	BR GAAP	Adjustments	IFRS
Net interest income	**h**	**11,065,762**	**203,984**	**11,269,746**
Income from equity instruments		18,449		18,449
Share of results of entities accounted for using the equity method	c	183,535	(927)	182,608
Fee and commission income	h	3,175,871	(650,962)	2,524,909
Fee and commission expense		(762,207)		(762,207)
Gains/losses on financial assets and liabilities (net):	g, i	1,822,112	(77,683)	1,744,429
Exchange differences (net)		(178,831)		(178,831)
Other operating income (expenses)		(286,799)		(286,799)
Total income		**15,037,892**	**(525,588)**	**14,512,304**
Administrative expenses	h	(6,403,370)	176,306	(6,227,064)
Depreciation and amortization:	j	(719,515)	380,247	(339,268)
Provisions (net)		(928,311)		(928,311)
Impairment losses financial assets (net):	b	(2,883,138)	(14,501)	(2,897,639)
Impairment losses other assets (net):	d	(818)	(31,978)	(32,796)
Gains/losses on disposal of assets not classified as non-ncurrent assets held for sale		28,412		28,412
Gains/losses on disposal of non-ncurrent assets held for sale		38,169		38,169
Profit before tax		**4,169,321**	**(15,514)**	**4,153,807**
Income taxes	f	(1,546,303)	(174,054)	(1,720,357)
Profit for the year		**2,623,018**	**(189,568)**	**2,433,450**
Profit attributed to minority interests		(1,171)	—	(1,171)
Profit attributed to the group		**2,621,847**	**(189,568)**	**2,432,279**

		Thousands of Reais
	Note	31/12/2007
Net income attributed to the group under Brazilian GAAP		**2,621,847**
IFRS adjustments, net of taxes		
Classification of financial instruments at fair value through profit or loss	g	(3,965)
Accounting under equity method	c	(927)
Deferral of financial fees, commissions and inherent costs under effective interest rate method	h	(178,644)
Reversal of amortization of goodwill	j	68,126
Mark to market of foreign currency forward	i	(47,306)
Impairment of Other Financial Assets	b	(14,500)
Impairment of Non-Financial Assets	d	(21,106)
Other		8,754
Net income attributed to the group under IFRS		**2,432,279**
Minority interest under IFRS		1,171
Net income		**2,433,450**

45. Subsequent Events

Legal Merger

On April 14, 2009, the executive committees of Banco Real and Sudameris Distribuidora de Títulos e Valores Mobiliários S.A. (Sudameris DTVM) approved and decided to submit to the approval of their respective stockholders the "Merger Agreement of Sudameris Distribuidora de Títulos e Valores Mobiliários S. A. by Banco ABN AMRO Real S. A.".

On the same date, the executive committees of Banco Santander S.A. and Banco Real approved and decided to submit to the approval of the Board of Directors of Banco Santander S.A. and its respective stockholders the corporate restructuring proposal as set out by the "Merger Agreement of Banco ABN AMRO Real S.A. by Banco Santander S A." (the "Agreement").

The merger of Sudameris DTVM by Banco Real and the subsequent merger of Banco Real by Banco Santander S.A. (the "mergers") constituted fundamental stages for the consolidation of the Santander Group's investments in Brazil and the resulting strengthening of its operational and organizational structure, as well as the integration of their operations.

The merger of Banco Real by Banco Santander S.A. will allow the conclusion of the operational, administrative and technologic integration plan that has been implemented since the control of Banco Real was acquired, in July 2008, and the corporate restructuring related to the merger of all shares of Banco Real into Banco Santander S.A. in August 2008.

The merger of Banco Real will also allow (i) the integration of the banking businesses and activities in a single financial institution for all commercial, financial and legal purposes; (ii) the decrease in administrative costs, and (iii) the streamlining of the corporate structure of the Santander Group in Brazil.

The Mergers were be carried out through the transfer of the book net assets of the Aquired Companies to the equity of the Acquirers, based on the audited balance sheets as of March 31, 2009. Changes in equity occurring between the date of said balance sheets and the completion of the Mergers (date of the Extraordinary Shareholders' Meetings that approve the Mergers) were recognized and recorded directly by the acquirers.

As the mergers involved wholly-owned subsidiaries, it was be necessary, as a result of these transactions, to (i) determine a share exchange ratio; (ii) define withdrawal rights; (iii) increase the capital of Banco Santander S.A. and Banco Real, and (iv) change the voting, dividend or any other equity or corporate rights to which the stock issues by Banco Santander S.A. s currently entitled.

Real Tokio Marine

As set forth in the Shareholders Agreement of Real Tokio Marine Vida e Previdência S.A ("RTMVP"), as a result of Banco Real shareholding control being assumed by Banco Santander S.A., AAB Dois Par exercised its right to acquire the remaining interest in RTMVP, with such right being transferred to Banco Santander S.A. on January 21, 2009. At the Board of Directors' meeting held on March 19, 2009, the sale of the following investments to Santander Seguros S.A. was authorized: the 50% interest acquired in Real Tokio Marine Vida e Previdência S.A. and the 100% interest in ABN AMRO Brasil Dois Participações S.A., for the total amount of R$1,495 million, generating a net gain of R$45 million which was recorded in nonoperating income. At RTMVP's Extraordinary Shareholders' Meeting held in March 2009, the change of the company's name to Real Seguros Vida e Previdência S.A. was approved.

Investments

In September 2008 Banco Real was involved in a share exchange for its share of ownership of Companhia Brasileira de Meios de Pagamento — Visanet for shares of Santander Investimentos e Participações S.A. and Empreendimentos e Administradora de Bens S.A. — REB.

A portion of those shares acquired by Banco Santander S.A. were later sold as part of a public offering announced on June 25, 2009. The public offering was concluded on July 3, 2009 with the sale of the supplementary and additional shares offered by the owners.

Banco Santander S.A.'s sale was equivalent to 7.67% of the total ordinary shares issued by Visanet. The total impact of the public offering corresponds to a net gain of approximately R$1,400,000 thousands.

Capital

The Extraordinary Stockholders' Meeting held on November 28, 2008 approved the partial spin-off of Aymoré Crédito, Financiamento e Investimento S.A., with the transfer of a portion of its equity to Banco ABN AMRO Real S.A., with a capital increase of R$2,801 thousands.

As part of the same stockholders' meeting, a capital reduction of ABN AMRO Brasil Dois Participações S.A. was approved in the amount of R$928,280 thousand, without reducing the number of common shares outstanding.

(Thousands of Brazilian Reais)

Pension Plans

On April 7, 2009 the Combined Companies fully discharged to HSBC any and all of its duties regarding the defined benefit plan managed by Previban - Previdência Privada Paraiban, from that point forward, by paying the aforementioned party the balance related to the difference between the benefit obligations and related plan assets. This event caused no changes to the plan itself nor to its related assets and obligations.

APPENDIX I — SUBSIDIARIES of Banco ABN AMRO Real S.A. and ABN AMRO Dois Participações S.A.

		As of and for the Year Ended December 31, 2007			
		Participation %		Stockholders'	Net Income
	Activity	Direct	Indirect	Equity	(Losses)
Controlled by Banco ABN AMRO Real S.A.					
Real Leasing S.A. Arrendamento Mercantil	Leasing	69.80%	99.99%	7,001,986	424,365
Banco de Pernambuco S.A. — BANDEPE	Bank	100.00%		3,432,932	261,281
Sudameris Distribuidora de Títulos e Valores Mobiliários S.A.	Dealer	100.00%		2,095,677	391,229
Banco Comercial e de Investimento Sudameris S.A.	Bank	5.92%	99.80%	2,022,449	405,021
ABN AMRO Arrendamento Mercantil S.A.	Leasing	99.99%		559,795	31,408
ABN AMRO Administradora de Cartões de Crédito Ltda.	Credit Card	3.22%		430,716	24,682
Credicenter Empreendimentos e Promoções Ltda.	Other Activities	12.23%		274,123	51,204
Companhia Real Distribuidora de Títulos e Valores Mobiliários	Dealer	100.00%		140,494	66,110
Real Corretora de Seguros S.A.	Broker	100.00%		70,646	53,208
ABN AMRO Administradora de Consórcio Ltda.	Buying club	100.00%		25,760	17,860
Webmotors S.A.	Other Activities	100.00%		21,156	9,992
Aymoré Crédito, Financiamento e Investimento S.A.	Financial Companies	100.00%		19,047	938
Real Microcrédito S.A.	Microcredit	100.00%		3,710	(1,117)
Real Argentina S.A.	Other Activities	99 99%		2,210	1,023
ABN AMRO Advisory Services S.A.	Other Activities	100.00%		1,882	673

(Thousands of Brazilian Reais)

	As of and for the Year Ended December 31, 2007				
		Participation %			
	Activity	Direct	Indirect	Stockholders' Equity	Net Income (Losses)
Controlled by ABN AMRO Dois Participações S A.					
Banco ABN AMRO Real S.A.	Bank	0.05%		12,044,971	2,539,213
ABN Amro Administradora de Cartões de Crédito Ltda.	Credit Card	96.78%		430,716	34,182
Credicenter Empreendimentos e Promoções Ltda.	Other Activities	87.77%		274,123	51,204
Real Capitalização S.A.	Capitalization	100.00%		158,925	64,098
Cruzeiro Factoring Sociedade de Fomento Comercial Ltda.	Factoring	100.00%		116,007	7,022
Real CHP S.A.	Holding	92.77%		4,738	4,448
ABN AMRO Brasil Participações e Investimentos S.A.	Holding	100.00%		(30)	(31)

ANNEX A
FORM OF FINAL TERMS

Final Terms dated [ ]

Banco Santander (Brasil) S.A.

(a company incorporated under the laws of the Federative Republic of Brazil)
[acting through its principal office in Brazil]
[acting through its Grand Cayman Branch]

U.S.$3,500,000,000 Global Medium-Term Note Program

Series No: [ ]

[TITLE OF NOTES] [CURRENCY CONSTRAINT NOTES] [AND]

[SOVEREIGN EVENT NOTES] [AND] [CREDIT EVENT NOTES] DUE [ ]

Issue price: [ ]

PART A – CONTRACTUAL TERMS

[THE NOTES CONTAIN A FOREIGN CURRENCY CONSTRAINT PROVISION, AS MORE FULLY DESCRIBED IN THE CONDITIONS (AS DEFINED BELOW). SUBJECT TO THE SOVEREIGN EVENT PROVISIONS (IF APPLICABLE) AND SUBJECT TO THE CREDIT EVENT PROVISIONS (IF APPLICABLE) DURING A FOREIGN CURRENCY CONSTRAINT EVENT (AS DEFINED IN THE CONDITIONS) HOLDERS OF NOTES MAY ELECT TO EXCHANGE THE NOTES FOR AN EQUIVALENT NOMINAL AMOUNT OF EXCHANGED NOTES (AS DEFINED IN THE CONDITIONS) WITH TERMS AND CONDITIONS IDENTICAL TO THE CONDITIONS EXCEPT THAT PAYMENTS IN RESPECT OF THE EXCHANGED NOTES WILL BE MADE IN THE LAWFUL CURRENCY OF BRAZIL. AFTER THE TERMINATION OF THE FOREIGN CURRENCY CONSTRAINT EVENT EXCHANGED NOTES WILL BE EXCHANGED FOR AN EQUIVALENT NOMINAL AMOUNT OF THE NOTES AND SUCH HOLDER WILL RECEIVE FUTURE PAYMENTS IN RESPECT OF THE NOTES IN THE SPECIFIED CURRENCY. A FOREIGN CURRENCY CONSTRAINT EVENT WILL NOT BE DEEMED TO BE AN EVENT OF DEFAULT.]

[THE NOTES CONTAIN A SOVEREIGN EVENT PROVISION, AS MORE FULLY DESCRIBED IN THE CONDITIONS [(AS DEFINED BELOW)]. ON THE OCCURRENCE OF A SOVEREIGN EVENT (AS DEFINED IN THE CONDITIONS), THE ISSUER MAY ELECT TO DELIVER ON THE MATURITY DATE OR EARLIER REDEMPTION DATE, THE GOVERNMENTAL OBLIGATIONS (AS DEFINED IN THE CONDITIONS) OR *REAIS* TO THE HOLDER WHEREUPON THE ISSUER'S OBLIGATIONS IN RESPECT OF SUCH PAYMENT UNDER SUCH NOTE SHALL BE DEEMED FULLY SATISFIED AND DISCHARGED.]

[THE NOTES CONTAIN A CREDIT EVENT PROVISION, AS MORE FULLY DESCRIBED IN THE CONDITIONS [(AS DEFINED BELOW)]. ON THE OCCURRENCE OF A CREDIT EVENT (AS DEFINED IN THE CONDITIONS), THE ISSUER MAY ELECT TO DELIVER ON THE MATURITY DATE OR EARLIER REDEMPTION DATE, THE CREDIT OBLIGATIONS (AS DEFINED IN THE CONDITIONS) OR *REAIS* TO THE HOLDER WHEREUPON THE ISSUER'S OBLIGATIONS IN RESPECT OF SUCH PAYMENT UNDER SUCH NOTE SHALL BE DEEMED FULLY SATISFIED AND DISCHARGED.]

[DEALER NAME(S)]

This document constitutes the Final Terms 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 set forth in the Information Memorandum dated [ ] [and the supplemental Information Memorandum dated [ ]]. These Final Terms must be read in conjunction with the Information Memorandum [as so supplemented].

The issue of the Notes was authorized by [a resolution of the Board of Directors] of the Issuer dated [ ].

These Final Terms do 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 authorized 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 these Final Terms 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 REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"))]. THESE FINAL TERMS HAVE 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 REGULATION S [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 THESE FINAL TERMS AND THE REMAINDER OF THE INFORMATION MEMORANDUM, SEE "SUBSCRIPTION AND SALE" CONTAINED IN THE INFORMATION MEMORANDUM.

* In case of bearer notes, include the following language on the face of the note: "**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.**"

On the front:

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

1	Issuer:	Banco Santander (Brasil) S.A. [acting through its principal office in Brazil/acting through its Grand Cayman Branch]
2	[(i)] Series Number:	[ ]
	[(ii) Tranche Number:	[ ]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	

3	(i)	Specified Currency or Currencies (Condition 1(d)):	[ ]
	(ii)	Specified Principal Payment Currency if different from Specified Currency (Condition 1(d)):	[ ]
	(iii)	Specified Interest Payment Currency if different from Specified Currency (Condition 1(d)):	[ ]
4	Aggregate Nominal Amount:		
	(i)	Series:	[ ]
	(ii)	Tranche:	[ ]
5	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)
6	(i)	Specified Denominations (Condition 1(b)):	[ ][1]
	(ii)	Tradable Amount:	[ ] So long as the Notes are represented by a temporary Global Note or permanent Global Note, the Notes will be tradable only in principal amounts of at least the Specified Denomination and integral multiples of the Tradable Amount in excess thereof
7	(i)	Issue Date (Condition 5(III)):	[ ]
	(ii)	Interest Commencement Date: (if different from the Issue Date):	[ ]
8	Maturity Date or Redemption Month (Condition 6(a)):		[*specify date or (for Floating Rate Notes) Specified Interest Payment Date falling in the Redemption Month*]
9	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)

[1] 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 denomination of £100,000 (or its equivalent in other currencies).

10	Redemption/Payment Basis (Condition 6(a)):	[Redemption at par] [Index Linked Redemption (*specify*)] [Dual Currency (*specify*)] [Partly Paid (*specify*)] [Installment (*specify*)] [Other (*specify*)]
11	Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12	Put/Call Options (Conditions 6(e) and (f)):	[Noteholder Put] [Issuer Call] [N/A] [(further particulars specified below)]
13	Status of the Notes (Condition 3):	[Senior] [*Specify status if different from Condition 3*]
14	Method of Distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15	Fixed Rate Note Provisions (Condition 5(I)):	[Applicable/N/A] (*If N/A, delete the remaining sub-paragraphs of this paragraph*)
	(i) Rate(s) of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/weekly/daily] in arrear]
	(ii) Interest Payment Date(s):	[ ] [in each year]
	(iii) Fixed Coupon Amount(s):	[ ] per lowest Specified Denomination
	(iv) Broken Amount(s):	[*Insert particulars of any initial or final broken interest amounts*]
	(v) Day Count Fraction (Condition 5(III)):	[ ] (*Day count fraction should be Actual/Actual-ISMA for all fixed rate issues other than those denominated in U.S. dollars, unless otherwise requested*)
	(vi) Determination Date(s) (Condition 5(III)):	[*Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative) in each year – only to be completed for any issue where day count fraction is Actual/Actual-ISMA*]

	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[N/A/*give details*]
16	Floating Rate Note Provisions	[Applicable/N/A]
	(Condition 5(II)):	(*If N/A, delete the remaining sub-paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate for euro denominated issues*)
	(i) Interest Period(s)/Specified Interest Payment Dates:	[ ]
	(ii) 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*)]
	(iii) Additional Business Centre(s) (Condition 5(III)):	[ ]
	(iv) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
	(v) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[ ]
	(vi) Screen Rate Determination (Condition 5(II)(b)(i)):	[Applicable/N/A]
	• Interest Determination Date(s) (Condition 5(III)):	[ ]
	• Reference Rate:	[ ]
	• Reference Screen Rate:	[ ]
	(vii) ISDA Determination (Condition 5(II)(b)(ii)):	[Applicable/N/A]
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ]
	• ISDA Definitions(if different from those set out in the Conditions):	[ ]
	(viii) Margin(s):	[+/–] [ ] per cent. per annum
	(ix) Minimum Rate of Interest:	[ ] per cent. per annum
	(x) Maximum Rate of Interest:	[ ] per cent. per annum
	(xi) Day Count Fraction	[ ]

		(Condition 5(III)):	
	(xii)	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)):	[ ]
	(xiii)	Relevant Financial Centre:	[ ]
17	Zero Coupon Note Provisions (Conditions 5(IV) and 6(d)):		[Applicable/N/A] (*If N/A, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Amortization Yield:	[ ] per cent. per annum
	(ii)	Reference Price:	[ ]
	(iii)	Basis:	[Straightline/Compounded at [*specify*] interval]
	(iv)	Day Count Fraction(Condition 5(III)):	[ ]
	(v)	Any other formula/basis of determining amount payable:	[ ]
18	Index Linked Interest Note Provisions:		[Applicable/N/A] (*If N/A, delete the remaining sub-paragraphs of this paragraph - **if applicable, complete terms MUST be set out in these Final Terms***)
	(i)	Index/Formula:	[*Give or annex details*]
	(ii)	Calculation Agent responsible for calculating the interest due:	[ ]
	(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[ ]
	(iv)	Interest Period(s)/Specified Interest Payment Dates:	[ ]
	(v)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/other (*give details*)]
	(vi)	Additional Business Centre(s) (Condition 5(III)):	[ ]
	(vii)	Minimum Rate of Interest:	[ ] per cent. per annum
	(viii)	Maximum Rate of Interest:	[ ] per cent. per annum

	(ix)	Day Count Fraction (Condition 5(III)):	[ ]
19	Dual Currency Note Provisions:		[Applicable/N/A] (*If N/A, delete the remaining sub-paragraphs of this paragraph -* ***if applicable, complete terms MUST be set out in these Final Terms***)
	(i)	Rate of Exchange/Method of calculating Rate of Exchange:	[Give details]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[ ]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[ ]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[ ]
	(v)	Day Count Fraction(Condition 5(III)):	[ ]

PROVISIONS RELATING TO REDEMPTION

20	Call Option (Condition 6(e)):		[Applicable/N/A] (*If N/A, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[ ]
	(ii)	Optional Redemption Amounts(s) and method, if any, of calculation of such amount(s):	[ ]
	(iii)	Description of any other Issuer's option:	[ ]
	(iv)	If redeemable in part:	
		Minimum nominal amount to be redeemed:	[ ]
		Maximum nominal amount to be redeemed:	[ ]
	(v)	Notice period (if other than as set out in the Conditions):	[ ]
21	Put Option (Condition 6(f)):		[Applicable/N/A] (*If N/A, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[ ]

	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[ ]
	(iii)	Description of any other Noteholders' option:	[ ]
	(iv)	Deposit period (if other than as set out in the Conditions):	[ ]
	(v)	Notice period (in respect of deposit period):	[ ]
22	Final Redemption Amount:		[Nominal amount/Other/See Appendix]
	(i)	Alternative Payment Mechanism (Conditions 7(a) and (b)):	[Applicable/N/A]
	(ii)	Long Maturity Note (Condition 7(e)):	[Applicable/N/A]
23	Early Redemption Amount:		
	(i)	Early Redemption Amount(s) 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):	[ ]
	(ii)	Original Withholding Level (Condition 6(c)):	[ ]
	(iii)	Unmatured Coupons to become void (Condition 7(e)):	[Yes/No/N/A]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24	Form of Notes:		[Bearer Notes/Registered Notes] [*delete as appropriate*]
			Bearer Notes
	(i)	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]
	(ii)	Permanent Global Note in respect of Exchanged Notes (Condition 15):	[Yes/N/A]
	(iii)	Exchange Date in respect of Temporary Global Note:	[N/A/*specify date*]
	(iv)	Applicable TEFRA exemption:	[C Rules/D Rules/N/A]

		Registered Notes
	(v) DTC Global Notes, International Global Note Certificates or individual Definitive Registered Notes:	[DTC Restricted Global Note and/or [DTC Unrestricted Global Note/ International Global Note Certificate] available on Issue Date] [Individual Definitive Registered Notes available on Issue Date]
25	Additional Financial Center(s) (Condition 7(a)(iii)) or other special provisions relating to payment dates:	[*N/A/Give details. Note that this item relates to the place of payment, and not interest period end dates, to which item 17(iii) relates*]
26	Talons for future Coupons to be attached to definitive Bearer Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27	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:	[N/A/give details] (***If applicable, complete terms MUST be set out in these Final Terms***)
28	Details relating to Installment Notes:	[N/A /give details] (***If applicable, complete terms MUST be set out in these Final Terms***)
29	Redenomination, renominalization and reconventioning provisions:	[N/A/The provisions annexed to these Final Terms apply]
30	Consolidation provisions:	[N/A/The provisions annexed to these Final Terms apply]
31	Foreign Currency Constraint Provisions applicable (Condition 15(a)) – subject to Sovereign Event provisions, if applicable (Condition 15(b) and Credit Event provisions if applicable (Condition 15(c)):	[Yes/No]
32	Sovereign Event Provisions applicable (Condition 15(b)):	[Yes/No]
	(i) Governmental Obligations:	[Not specified/Specified as follows:]
	(ii) Delivery information to be provided in Transfer Notice:	[ ]
	(iii) Other terms:	[N/A/*give details*]
33	Credit Event Provisions applicable (Condition 15(c)):	[Yes/No]
	(i) Credit Obligations:	[Not specified/Specified as follows:]
	(ii) Reference Obligor:	[N/A/Specified as follows:]

	(iii)	Delivery information to be provided in Transfer Notice:	[ ]
	(iv)	Other terms:	[N/A/*give details*]
34	Other terms or special conditions:		[N/A/*give details*]

DISTRIBUTION

35	(i)	If syndicated, names of Managers:	[N/A/*give names*]
	(ii)	Stabilising Manager (if any):	[N/A/*give name*]
	(iii)	Commissions and Concessions:	[ ]
36	If non-syndicated, name of Dealer:		[N/A/*give name*]
37	Additional selling restrictions:		[N/A/*give details*]

[LISTING APPLICATION

These Final Terms comprise the details required to list the issue of Notes described herein pursuant to the listing of the U.S.$3,500,000,000 Global Medium-Term Note Program of Banco Santander (Brasil) S.A. (acting through its principal office in Brazil or through its Grand Cayman Branch)]

MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries (taken as a whole) since [*insert date of last audited accounts or interim accounts (if later)*] and no material adverse change in the financial position or prospects of the Issuer and its subsidiaries (taken as a whole) since [*insert date of last published annual accounts*]).

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms which, when read together with the Information Memorandum referred to above, contain all information that is material in the context of the issue of the Notes.

Signed on behalf of the Issuer:

By:_______________________

Duly authorized signatory

PART B – OTHER INFORMATION

DISTRIBUTION

1 LISTING

(i)	Listing:	[London/Luxembourg/other (specify)/None]:
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on the [Euro MTF Market/Other (specify)] with effect from [ ].] [Not Applicable.]
(iii)	Estimate of total expenses related to admission to trading:	[ ]

2 RATINGS

Ratings:	The Notes to be issued have been rated: [S & P: [ ]] [Moody's: [ ]] [[Other]: [ ]] *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Program generally or, where the issue has been specifically rated, that rating.)*

3 [NOTIFICATION

The [include name of competent authority in EEA home Member State] [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Program and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

5 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)	Reasons for the offer	[ ] (*See ["Use of Proceeds"] wording in Information Memorandum – if reasons for offer different from making profit and/or hedging certain risks, will need to include those reasons here.*)]
[(ii)]	Estimated net proceeds:	[ ] (*If proceeds are intended for more than one use, will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)

[(iii)) Estimate of total expenses:	[ ] *[Include breakdown of expenses.] (Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)] [Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies]*

6 [Fixed Rate Notes only – YIELD

Indication of yield:	[ ] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7 [Index Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer, need to include details of where the information about the index can be obtained. Where the underlying is not an index, need to include equivalent information.]

8 [Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.] [*Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies*]

9 OPERATIONAL INFORMATION

ISIN Code:	[ ]
Common Code:	[ ]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking societé anonyme and the relevant identification number(s):	[Not Applicable/give name(s) and number(s) [and addresses])]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[ ]

10 GENERAL

Applicable TEFRA exemption:	[C Rules/D Rules/Not Applicable]

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Nassau–The Bahamas

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