



Banco BTGPactual S.A.

a *sociedade anônima* incorporated in the Federative Republic of Brazil
(acting through its principal office in Brazil or through its Cayman Islands Branch)

US\$3,000,000,000

Global Medium-Term Note Programme

Under its global medium-term note programme (the "Programme"), Banco BTGPactual S.A., acting either through its principal office in Brazil or through its Cayman Islands Branch (the "Issuer"), may from time to time issue medium-term notes (the "Notes") denominated in such currencies as may be agreed with the Dealers (as defined below). The Notes may be issued on a continuing basis to one or more of the Dealers. The Notes will have maturities from 30 days to 30 years from the date of issue (except as set out herein). The Notes will bear interest on a fixed or floating rate basis, or be issued on a fully discounted basis and not bear interest. Subject to the terms set forth herein, the maximum aggregate nominal amount of all Notes issued and outstanding under the Programme will not exceed US\$3,000,000,000 (or its equivalent in other currencies at the time of agreement to issue, subject to the terms set forth herein). Notes will be issued in one or more series (each a "Series") having one or more issue dates and the same maturity date, bearing interest on the same basis and at the same rate, and on terms otherwise identical (except in relation to interest commencement dates and matters related thereto). 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. Details applicable to each Tranche and Series will be specified in a supplement to this document (the relevant "Final Terms").

Investing in the Notes involves risks. See "Risk Factors" included in this Offering Memorandum.

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF market, which is not a regulated market within the meaning of Directive 2004/39/EC concerning markets in financial instruments (the "MIFID Directive"). However, Notes may be issued under the Programme which will not be listed on the Official List of the Luxembourg Stock Exchange or traded on the Euro MTF market of the Luxembourg Stock Exchange or any other stock exchange and/or market, and the Final Terms applicable to a Series will specify whether or not the Notes of such Series will be listed and admitted to trade on the Euro MTF market of the Luxembourg Stock Exchange or any other stock exchange and/or market. With respect to the Programme and any listed Notes issued under the Programme, there can be no assurance that a listing on the Euro MTF market of the Luxembourg Stock Exchange or any other stock exchange will be achieved prior to the issue date of any Notes or otherwise. This Offering Memorandum updates the offering memorandum for the Programme dated January 9, 2013, which was approved as a base prospectus by the Luxembourg Stock Exchange. In relation to the Notes listed on the Luxembourg Stock Exchange, this Offering Memorandum is valid for a period of 12 months from the date hereof.

Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the ratings described below or the rating(s) assigned to Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the EEA and registered under Regulation (EU) No. 1060/2009, as amended (the "CRA Regulation") will be disclosed in the relevant Final Terms.

In general, European regulated investors are restricted under the CRA Regulation from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA or registered under the CRA Regulation but such rating is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA or registered under the CRA Regulation but which is certified under the CRA Regulation.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

Notes of each Tranche of each Series to be issued in registered form ("Registered Notes" comprising a "Registered Series"), and which are sold in an "offshore transaction" within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), will initially be represented by interests in a definitive global unrestricted Registered Note (each an "Unrestricted Global Note"), without interest coupons, which will be deposited with either (a) a common depository for, and registered in the name of a nominee of a common depository for, Clearstream, Luxembourg and Euroclear on its issue date (each a "European Unrestricted Global Note"), or (b) a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") (each a "DTC Unrestricted Global Note"). Beneficial interests in a European Unrestricted Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. Until the expiration of 40 days after the later of the commencement of the offering of a Tranche of a Registered Series and the issue date thereof, beneficial interests in a DTC Unrestricted Global Note may be held only through Euroclear or Clearstream, Luxembourg. See "Form of Notes; Book Entry and Transfer." Registered Notes sold to a qualified institutional buyer within the meaning of Rule 144A under the Securities Act that are also qualified purchasers within the meaning of Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"), as referred to in, and subject to the transfer restrictions described in "Subscription and Sale" and "Transfer Restrictions," will initially be represented by a definitive global restricted Registered Note (each a "Restricted Global Note") without interest coupons, which will be deposited with either (a) a common depository for, and registered in the name of a nominee of a common depository for, Clearstream, Luxembourg and Euroclear on its issue date (each a "European Restricted Global Note" and together with any European Unrestricted Global Note the "European Global Notes"), or (b) a custodian for, and registered in the name of a nominee of, DTC on its issue date (each a "DTC Restricted Global Note" and together with any DTC Unrestricted Global Note, the "DTC Global Notes"). Beneficial interests in a European Restricted Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. Beneficial interests in a DTC Restricted Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "Form of Notes, Book Entry and Transfer." Individual Definitive Registered Notes will only be available in certain limited circumstances as described herein.

Arranger and Dealer

BTGPactual

The date of this Offering Memorandum is April 11, 2013

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In this Offering Memorandum, unless the context requires otherwise, references to:

- (i) “Banco BTG Pactual,” “we,” “us,” “our,” or “ourselves” are to (A) Banco Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to any period prior to December 1, 2006, (B) Banco UBS Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to the period from and including December 1, 2006 through September 18, 2009 and (C) Banco BTG Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to any period on or after September 19, 2009;
- (ii) “BTG Alpha” are to BTG Alpha Investments LLC, a limited liability company organized under the laws of Delaware, which was a wholly-owned indirect subsidiary of BTGI until March 31, 2010;
- (iii) “BTG GP” are to BTG Pactual Management Ltd, an exempted company incorporated under the laws of Bermuda and the holder of one Class C voting common share of the share capital of BTG Pactual Participations, which (A) has no economic rights and (B) is currently held indirectly by André Santos Esteves and the Top Seven Partners, pursuant to which Mr. Esteves indirectly controls BTG Pactual Participations;
- (iv) “BTGI” are to BTG Investments L.P., an exempted limited partnership established under the laws of Bermuda, and its consolidated subsidiaries;
- (v) “BTG Pactual Group” are to Banco BTG Pactual, BTGI, BTG Pactual Participations and their respective subsidiaries, collectively, except when these references relate to financial information included elsewhere in this Offering Memorandum, in which case such references are to Banco BTG Pactual and BTGI and their respective subsidiaries, collectively, excluding BTG Pactual Participations;
- (vi) “BTG Pactual Holding” are to BTG Pactual Holding S.A., a corporation (*sociedade anônima*), organized under the laws of Brazil, which (A) directly owns a majority of our common shares issued and outstanding and directly owns all of our capital stock that is part of our Partnership Equity, (B) is owned by the Partners and (C) is controlled by André Santos Esteves, our controlling shareholder;
- (vii) “BTG Pactual Participations” are to BTG Pactual Participations Ltd, a limited liability exempted company incorporated under the laws of Bermuda, which (A) is the general partner of BTGI and (B) is the indirect holding company of the partnership interests of BTGI indirectly purchased by unit holders in the initial public offering of the BTG Pactual Group in April 2012;
- (viii) “Issuer” are to Banco BTG Pactual S.A. without its consolidated subsidiaries, acting through its principal office in Brazil or through its Cayman Islands Branch;
- (ix) “members of the Consortium” are to the consortium of international investors who invested in our equity in December 2010 and include Pacific Mezz Investco S.A.R.L (Pacific Mezz), an affiliate of Government of Singapore Investment Corporation Pte Ltd, China Investment Corporation (CIC) (through Beryl County LLP), Ontario Teachers’ Pension Plan Board (OTPP) (directly and through Classroom Investments Inc.), Abu Dhabi Investment Council (ADIC) (through Hanover Investments (Luxembourg) S.A.), J.C. Flowers & Co. LLC (through Europa Lux III S.a.r.l.), RIT Capital Partners plc, Marais LLC, the Santo Domingo Group of Colombia (through Sierra Nevada Investments LLC), EXOR S.A., the investment company controlled by the Agnelli family of Italy, and Inversiones Bahía (through Rendefeld, S.A.), the holding company of the Motta family of Panama, as well as equity securities in BTG Pactual Participations and BTGI, which, after giving effect to the sale by certain members of the Consortium in (and following) the BTG Pactual

Group's initial public offering, collectively own approximately 9.40% of our outstanding economic interests as of the date of this Offering Memorandum;

- (x) "Merchant Banking Partnership" are to BTG MB Investments L.P., an exempted limited partnership established under the laws of Bermuda, which is (A) owned by the Partners and (B) directly owns BTG Alpha;
- (xi) "Participating Partners" are to the Partners that purchased our common and preferred shares, BTGI Class D partnership interests and Class D shares of BTG Pactual Participations at the same time, on the same terms and as part of the same transaction, as the members of the Consortium, which as of the date of this Offering Memorandum, collectively represents approximately 2.31% of our outstanding economic interests;
- (xii) "Partners" are to the individuals who, collectively (together with their family members, trusts or other entities established for their benefit or the benefit of their family members) directly or indirectly currently hold our common and preferred shares as well as equity securities in BTG Pactual Participations and BTGI, which as of the date of this Offering Memorandum, collectively represents approximately 75.21% of the outstanding economic interests in the BTG Pactual Group (which includes approximately 2.31% of outstanding economic interests in the BTG Pactual Group that was purchased by the Participating Partners at the same time and on the same terms as the members of the Consortium as well as the units purchased by BTG Pactual Holding in the initial public offering of the BTG Pactual Group but excludes the ownership interests of the former partners of Celfin and Bolsa y Renta), together with any individuals that in the future, directly or indirectly, hold equity interests in the BTG Pactual Group, and who are employees (or act in a similar capacity) of one or more entities within the BTG Pactual Group;
- (xiii) "Senior Management Team" are the following individuals: André Santos Esteves, Marcelo Kalim, Roberto Balls Sallouti, Persio Arida, John Huw Gwili Jenkins, Antonio Carlos Canto Porto Filho, Rogério Pessoa Cavalcanti de Albuquerque, Jonathan David Bisgaier, Emmanuel Rose Hermann, Eduardo Henrique de Mello Motta Loyo, James Marcos de Oliveira, Guilherme da Costa Paes, Renato Monteiro dos Santos, André Fernandes, João Marcello Dantas Leite, Carlos Daniel Rizzo da Fonseca, José Octavio Mendes Vita and José Zitelmann;
- (xiv) "Top Seven Partners" are to the Partners (other than André Santos Esteves) that have the seven largest equity stakes in Banco BTG Pactual and BTGI. As of the date of this Offering Memorandum, the Top Seven Partners are Marcelo Kalim, Roberto Balls Sallouti, Persio Arida, Antonio Carlos Canto Porto Filho, Emmanuel Rose Hermann, James Marcos de Oliveira and Renato Monteiro dos Santos; and
- (xv) "units" are to (i) global depositary units listed on the BM&FBOVESPA representing (A) one common share and two preferred shares of our capital stock and (B) one voting share and two non-voting shares of BTG Pactual Participations in the form of Brazilian depositary receipts and (ii) global depositary units listed on Alternext Amsterdam representing (A) one voting share and two non-voting shares of BTG Pactual Participations and (B) one common share and two preferred shares of our capital stock in the form of global depositary shares.

This Offering Memorandum constitutes a "prospectus" for the purposes of the admission to listing on the Official List of the Luxembourg Stock Exchange and to trading of the Notes on the Euro MTF Market in accordance with the rules and regulations of the Luxembourg Stock Exchange (the "Rules") and, in particular, pursuant to the Rules applicable to the admission to trading of debt securities subscribed by a limited number of investors who are particularly knowledgeable in investment matters. The Euro MTF Market is not a "regulated market" in the sense of Article 36 of Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004 on markets in financial instruments. This Offering Memorandum therefore does not comprise a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive").

This Offering Memorandum has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under the Prospectus Directive, in member states of the European Economic Area (the “EEA”) which have implemented the Prospectus Directive (each a “Relevant Member State”), from the requirement to produce a prospectus (for the purposes of Article 5.4 of the Prospectus Directive) for offers of the Notes. Any person making or intending to make any offer in a Relevant Member State or elsewhere of the Notes should only do so in circumstances in which no obligation arises for the Issuer or the Dealers to produce such a prospectus for such offer. Neither the Issuer nor the Dealers have authorized, nor do they authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by the Dealers which constitute the final placement of the Notes contemplated in this Offering Memorandum. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measures in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

You should rely only on the information contained in this Offering Memorandum. The Issuer accepts responsibility for the information contained in this Offering Memorandum and confirms that, to the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and contains no omission likely to affect its import. Having made all reasonable inquiries, the Issuer confirms that (i) this Offering Memorandum contains all information with respect to the Issuer and its subsidiaries taken as a whole, the Programme and the Notes to be issued thereunder which is material in the context of the issue and offering of the Notes, (ii) such information contained in this Offering Memorandum is true and accurate in all material respects and is not misleading, (iii) the opinions and intentions expressed in this Offering Memorandum are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, and (iv) there are no other facts the omission of which would, in the context of the offering and issue of the Notes hereunder, make any statement in this Offering Memorandum as a whole misleading in any material respect. The Issuer accepts responsibility accordingly.

Neither this Offering Memorandum nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Memorandum or any other information supplied in connection with the Programme or any Notes should subscribe for or purchase any Notes. Each investor contemplating subscribing for or purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer, any of the Dealers or the Trustee (as defined herein) to subscribe or purchase, any of the Notes. The distribution of this Offering Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by the Issuer, the Dealers and the Trustee to inform themselves about and to observe any such restrictions. The Issuer and the Dealers do not represent that this Offering Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Memorandum, see “Subscription and Sale.”

The Trustee has not independently verified the information contained herein. Accordingly, The Trustee accepts no liability in relation to the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer in connection with the Programme. In addition, no representation, warranty or undertaking, express or implied, is made by the Dealer or the

Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Memorandum or any other information provided by the Issuer in connection with the Programme, and nothing contained herein is or shall be relied upon as a promise or representation by the Dealer or the Trustee, whether as to the past or to the future.

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

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT, OR REGULATION S). THIS OFFERING 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 IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, OR RULE 144A, TO PERSONS WHO ARE “QUALIFIED INSTITUTIONAL BUYERS” (AS DEFINED IN RULE 144A), OR QIBS, THAT ARE ALSO “QUALIFIED PURCHASERS” (AS DEFINED IN SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT), OR QPS, AND FOR LISTING OF THE NOTES ON THE OFFICIAL LIST OF THE LUXEMBOURG STOCK EXCHANGE (FOR TRADING ON THE EURO MTF MARKET OF 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 AND THE EXEMPTION FROM THE PROVISIONS OF THE INVESTMENT COMPANY ACT PROVIDED BY SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT, OR 3(c)(7). FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE NOTES AND DISTRIBUTION OF THIS OFFERING MEMORANDUM, SEE “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS.”

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE BRAZILIAN SECURITIES COMMISSION (*COMISSÃO DE VALORES MOBILIÁRIOS*), OR CVM. ANY PUBLIC OFFERING OR DISTRIBUTION, AS DEFINED UNDER BRAZILIAN LAWS AND REGULATIONS, OF THE NOTES IN BRAZIL IS NOT LEGAL WITHOUT PRIOR REGISTRATION UNDER LAW NO. 6,385/76, AS AMENDED, AND INSTRUCTION NO. 400, ISSUED BY THE CVM ON DECEMBER 29, 2003, AS AMENDED. DOCUMENTS RELATING TO THE OFFERING OF THE NOTES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE SUPPLIED TO THE PUBLIC IN BRAZIL (AS THE OFFERING OF THE NOTES IS NOT A PUBLIC OFFERING OF SECURITIES IN BRAZIL), NOR BE USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF THE NOTES TO THE PUBLIC IN BRAZIL. THE DEALERS HAVE AGREED NOT TO OFFER OR SELL THE NOTES IN BRAZIL, EXCEPT IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE A PUBLIC OFFERING OR DISTRIBUTION OF SECURITIES UNDER APPLICABLE BRAZILIAN LAWS AND REGULATIONS.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

This Offering Memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) persons falling within Article 49(2)(a) to (d) of the Order or (iv) persons to whom this Offering Memorandum may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). The Notes are only offered to, and no invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes may be proposed or made other than with relevant persons. Any person who is not a relevant person should not act or rely on this offering memorandum or any of its contents. For a description of certain restrictions on offers and sales of Notes and the distribution of this offering memorandum in the United Kingdom, see “Subscription and Sale.”

This offering memorandum is not a prospectus which has been approved by the Financial Services Authority or any other United Kingdom regulatory authority for the purposes of Section 85 of the Financial Services and Markets Act 2000, or the FSMA.

References herein to “US\$,” “U.S.\$,” “U.S. dollars” or “dollars” are to United States dollars, references to “Brazilian real,” “Brazilian *reais*,” “*real*,” “*reais*” or “R\$” are to Brazilian *reais*, the official currency of Brazil since July 1, 1994, references to “Euro” and “€” are to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the EC Treaty, references to “Yen” are to the Japanese Yen, the official currency of Japan, references to “CI\$” are to Cayman Island dollars, the official currency of the Cayman Islands and references to “£,” “Pounds” and “Sterling” are to Pounds Sterling.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as Stabilizing Manager(s) (the “Stabilizing Manager(s)”) (or persons acting on behalf of any Stabilizing Manager(s)) 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 the Stabilizing Manager(s)) 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.

For the purposes of the Luxembourg Stock Exchange (Euro MTF market), this Offering Memorandum shall constitute a Base Prospectus under the Luxembourg Law dated July 10, 2005 on Prospectuses for Securities, as amended. References herein to Offering Memorandum shall be construed as references to “Base Prospectus” and references to Final Terms shall be construed as references to “Pricing Supplement.” This Offering Memorandum may only be used for the purpose for which it has been published.

MARKET INFORMATION

The information (including statistical information) contained in this Offering Memorandum relating to Brazil and the Brazilian economy is based on information published by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank, other public entities and independent sources, including the National Association of Capital Markets Participants (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*), or ANBIMA, the Brazilian Federation of Banks (*Federação Brasileira de Bancos*), or FEBRABAN, the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*), or FGV, the Brazilian Association of Leasing Companies (*Associação Brasileira de Empresas de Leasing*), or ABEL, the National Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social—BNDES*), or BNDES, the National Monetary Council (*Conselho Monetário Nacional*), or CMN, and the Superintendency of Private Insurance (*Superintendência de Seguros Privados*), or SUSEP, and the São Paulo Stock Exchange (*BM&FBOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros*), or BM&FBOVESPA, among others. The information contained in this Offering Memorandum relating to markets in which we operate other than Brazil is based on Thomson Financial and Institutional Investor. Although we do not have any reason to believe any of this information is inaccurate in any material respect, we have not independently verified any such information, and neither us nor any of the Dealers or placement agents makes any representation as to the accuracy of such data.

ENFORCEABILITY OF JUDGMENTS IN BRAZIL

Brazil

We are a corporation (*sociedade anônima*) incorporated under the laws of Brazil and most of our board members and executive officers as well as most of their assets and those of such other persons, are located outside the United States and the United Kingdom. As a result, it may not be possible for you to effect service of process upon us or such other persons within the United States or the United Kingdom or other jurisdictions outside Brazil. Because judgments of U.S. and English courts for civil liabilities based upon U.S. federal securities laws or English law (as the case may be) may only be enforced in Brazil if certain conditions are met, you may face greater difficulties in protecting your interests in the case of actions against us, our board of directors or executive officers (as the case may be) than would investors in a U.S. corporation or English company. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in Brazil.

We have been advised by Machado, Meyer, Sendacz e Opice Advogados, our Brazilian counsel, that final substantiated (i.e., if the grounds for the judgment are contained in the decision), certain (i.e., the obligation to be accomplished in Brazil as ordered by the foreign judgment is clearly defined) and conclusive judgments for the payment of money rendered by any English court or any New York state or federal court sitting in New York City in respect of the Notes may be, subject to the requirements described below, enforced in Brazil. A judgment against us or the persons described above obtained outside Brazil would be enforceable in Brazil without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*), or STJ. Such confirmation would occur if the foreign judgment:

- complies with all formalities required for its enforceability under the laws of the jurisdiction where the foreign judgment is granted;
- is issued by a competent court after due service of process on the parties or sufficient evidence of the parties' absence has been given as required under applicable law, provided that such service must comply with Brazilian law;
- is final and not subject to appeal;
- is authenticated by a Brazilian consular office with jurisdiction over the location where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

There can be no certainty that the confirmation will be obtained, that the process described above will be conducted in a timely manner or that Brazilian courts will enforce a monetary judgment for violation of the United States or English securities laws with respect to the Notes offered by this Offering Memorandum.

Brazilian counsel have further advised us that original actions predicated on the securities laws of countries other than Brazil may be brought in Brazilian courts and that, subject to applicable law, Brazilian courts may enforce civil liabilities in such actions against us, our directors, executive officers and advisors named in this Offering Memorandum.

A plaintiff (whether or not Brazilian) residing outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that could secure such payment. The bond must have a value sufficient to satisfy the payment of court fees and defendant's attorney fees, as determined by a Brazilian judge. This requirement may not apply to counterclaims enforcement, extrajudicial enforcement instruments or the enforcement of foreign judgments that have been duly confirmed by the STJ.

Investors may also have difficulties enforcing original actions brought in courts in jurisdictions outside the United States for liabilities under the U.S. securities laws.

Cayman Islands

We are duly licensed and qualified to do business as a branch of a foreign bank according to the laws of the Cayman Islands. The Cayman Islands has a less-developed body of securities laws as compared to the United States and provides protection for investors to a significantly less extent.

We have been advised by Ogier, our Cayman Islands counsel, that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the State of New York, or Brazil, a judgment obtained in such jurisdictions will be recognized and enforced in the courts of the Cayman Islands at common law, without any reexamination on the merits of the underlying dispute, by any action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (i) is given by a foreign court of competent jurisdiction; (ii) imposes on the judgment debtor a liability to pay a liquidated sum for which judgment has been given; (iii) is final; (iv) is not in respect of taxes, a fine or a penalty; and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or public policy of the Cayman Islands.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains estimates and forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements appear throughout this Offering Memorandum, principally in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.”

These estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends that affect or may affect our business, financial condition, results of operations, cash flow, liquidity, prospects and the trading price of the Notes. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to many significant risks, uncertainties and assumptions and are made in light of information currently available to us.

Our estimates and forward-looking statements may be affected by the following factors, among others:

- the impact of the worldwide financial and economic crisis on Brazil and on the other markets in which we operate;
- general economic, political and business conditions both in Brazil and abroad;
- fluctuations in inflation, interest rates and exchange rates in Brazil and the other markets in which we operate;
- our ability to execute our business and expansion strategies and investment policies;
- potential growth opportunities available to our business, including through acquisitions of businesses (such as our recent acquisitions of Celfin Capital S.A., or Celfin, and Bolsa y Renta S.A., or Bolsa y Renta) that we believe are complementary to our existing activities, and our ability to realize the expected benefits resulting from such acquisitions;
- the ability of the management team of Banco PanAmericano S.A., or Banco PanAmericano, to successfully execute strategies that will allow it to consistently generate profits, including its ability to realize the expected benefits of its recent acquisition of a substantial portion of the businesses conducted by Brazilian Finance & Real Estate S.A., or BFRE;
- credit and other risks of lending, such as increases in defaults by borrowers;
- our ability to obtain financing on reasonable terms and conditions;
- our ability to remain competitive in our industry;
- the impact of future legislation and regulation on our business, including with respect to the capital requirements applicable to us and certain of our subsidiaries;
- our level of capitalization;
- governmental intervention resulting in changes to the economy, applicable taxes or tariffs or the regulatory environment in Brazil and the other markets in which we operate, including with respect to the regulation of financial institutions;
- the recruitment, compensation and retention of key personnel;

- *force majeure* events that affect Brazil and the other markets in which we operate; and
- other risk factors discussed in this Offering Memorandum under the caption “Risk Factors.”

The words “believe,” “understand,” “will,” “can,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “seek,” “should” and “could,” among other similar words, are intended to identify forward-looking statements. Forward-looking statements speak only as of the date they were made, and we do not undertake the obligation to update publicly or to revise any forward-looking statements after we distribute this Offering Memorandum as a result of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this Offering Memorandum might not occur and our future results may differ materially from those expressed in or suggested by these forward-looking statements. Forward-looking statements involve risks and uncertainties and are not a guaranty of future results. As a result you should not make any investment decision on the basis of the forward-looking statements contained herein.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Applicable Accounting Standards and Currency of Financial Statements

We maintain our books and records in *reais*, the official currency of Brazil, and prepare our financial statements for regulatory purposes in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, or Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Law No. 8,021/90, Law No. 9,457/97, Law No. 10,303/01, Law No. 11,638/07 and Law No. 11,941/09, or Brazilian Corporations Law; and
- the accounting standards established by the Standard Chart of Accounts for Financial Institutions (*Plano Contábil das Instituições do Sistema Financeiro Nacional*), or COSIF, Central Bank and the CMN.

We prepare our financial statements in accordance with Brazilian GAAP. Law No. 11,638/07 and Law No. 11,941/09 amended Brazilian Corporations Law and introduced the process of conversion of financial statements into International Financial Reporting Standards, or IFRS. However, the Central Bank did not fully adopt, as part of the accounting practices applicable to financial institutions, the provisions of Law No. 11,638. Instead, pursuant to Central Bank Communication No. 14,259, financial institutions that meet certain criteria are required to prepare supplemental consolidated financial statements which follow certain of the IFRS standards as originally issued by the International Accounting Standards Board, or IASB, as from December 31, 2010. However, as a result of our registration as a public company with the CVM, we were required to prepare consolidated financial statements for the years ended December 31, 2010 and 2011 in accordance with IFRS for the purpose of filing our offering documents with the CVM. Unless the context requires otherwise, any reference to our financial statements as of and for the years ended December 31, 2010, 2011 and 2012 in this Offering Memorandum are to those consolidated financial statements of Banco BTG Pactual prepared in accordance with the accounting practices applicable to institutions accredited by the Central Bank (Brazilian GAAP). No financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum. See “Annex A: Differences Between Brazilian GAAP and IFRS.”

Financial Statements

Auditors

Our audited consolidated financial statements as of and for the years ended December 31, 2010, 2011 and 2012 included elsewhere in this Offering Memorandum were prepared in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and have been audited, in accordance with Brazilian and international auditing standards, by Ernst & Young Terco Auditores Independentes S.S., or Ernst & Young, independent auditors as stated in their reports appearing herein.

Selected Balance Sheets and Income Statements

Our balance sheet and income statement as of and for the years ended December 31, 2010, 2011 and 2012 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2010, 2011 and 2012.

Emphasis Paragraphs Included in the Auditors’ Reports

The auditors’ reports to the financial statements included elsewhere in this Offering Memorandum include emphasis paragraphs related to the matters described below.

Banco PanAmericano S.A., or Banco PanAmericano, which we jointly control with CaixaPar Participações S.A., or CaixaPar, was, as of December 31, 2011, not in compliance with the regulatory operating limits required by the Central Bank. During 2011, Grupo Silvio Santos, a shareholder of Banco

PanAmericano at the time, contributed R\$1.3 billion in funds to Banco PanAmericano, and a shareholder's deposit was also made in the amount of R\$620.0 million for asset recovery purposes. In addition, in January 2012, Banco PanAmericano's shareholders approved a capital increase in an amount of up to R\$1.8 billion, of which R\$972.0 million was subscribed for and fully paid as of January 31, 2012. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE."

In addition, Banco PanAmericano had income and social contribution tax credits amounting to R\$3,014.0 million as of December 31, 2012 and R\$2,575.0 million as of December 31, 2011, as indicated in the report from our auditors to our audited consolidated financial statements as of and for the year ended December 31, 2011 and 2012. The credits were recognized substantially on the basis of financial projections and a business plan reviewed and approved by the board of directors of Banco PanAmericano. These projections and plan include studies on current and future economic scenarios and include several assumptions. The realization of these tax credits depends on the materialization of these projections and business plan.

As described in Note 2 to our audited consolidated financial statements as of and for the year ended December 31, 2011, we were fully merged with (i) BTG Participações II S.A., or BTG Participações and (ii) Copacabana Prince Participações S.A. Pursuant to the rules established by the Central Bank, our auditors have examined the procedures adopted in these mergers and have determined that, in their opinion, such procedures complied with applicable regulatory standards.

As described in Note 1 to our audited consolidated financial statements as of and for the year ended December 31, 2010, we were fully merged with BTG Pactual Investimentos S.A. Pursuant to the rules established by the Central Bank, our auditors have examined the procedures adopted in these mergers, which, in their opinion, complied with applicable regulatory standards.

Reclassification of Prior Period Statements

We have evaluated the presentation of the results from energy trading contracts generated by our subsidiary Coomex and have decided to (i) change the accounting policy for classification of such results in our income statements and financial statements as of and for the year ended December 31, 2012 and (ii) reclassify retrospectively these results in the comparative income statements and financial statements as of and for the years ended December 31, 2010 and 2011. The reclassification aims to provide a more meaningful presentation of our results from energy derivatives by combining into a single line item in our income statements our energy derivatives results from Coomex with our other energy derivative results. Our audited consolidated financial statements as of and for the years ended December 31, 2010 and 2011 included elsewhere in this Offering Memorandum have been reissued with the specific purpose of reflecting this change in accounting policy. Both our previous classification of the results from energy trading contracts generated by Coomex and our adjusted classification are in accordance with Brazilian GAAP.

Functional Currency

Our financial statements and the selected financial information based on our financial statements, as well as the accounting information that generated accounting records for preparing such financial statements were prepared in Brazilian *reais*.

Our Unaudited Adjusted Income Statement

The presentation of our audited income statement is based upon Brazilian GAAP and the standardized framework established by the Central Bank, which our management believes is better suited for the financial disclosure of commercial banks rather than investment banks like us. Our management believes that the additional presentation of an adjusted income statement provides information which is more consistent with the manner in which our publicly traded global investment banking competitors present financial information to the market.

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the years ended December 31, 2010, 2011 and 2012 and a discussion of such adjusted income statement. Our adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the years ended December 31, 2010, 2011 and 2012. The classification of the line items in our adjusted income statement, however, is unaudited and materially differs from the classification of the corresponding line items in our income statement, as further described below.

Below is a summary of certain material differences between our adjusted income statement and our income statement (which is derived from our financial statements):

	Adjusted Income Statement	Income Statement
Revenues	Our revenues are denominated in <i>reais</i> , our functional currency and the reporting currency used in our financial statements. We present our revenues segregated by business unit, which is the functional view used by our management to monitor our performance. To produce our adjusted income statement, each transaction is allocated to a business unit, and the associated revenue, net of transaction and funding costs (when applicable), is reported as generated by such business unit.	Our revenues are denominated in <i>reais</i> , our functional currency and the reporting currency used in our financial statements. Our revenues are presented in accordance with Brazilian GAAP, which follows the standards established by COSIF. COSIF determines a segregation of revenues that generally follows the contractual nature of the transactions and is in line with the classification of the assets and liabilities, from which such revenues are derived, reported in our balance sheet. Revenues are presented without deduction of corresponding financial or transaction costs.
Expenses	Our revenues included in our adjusted income statement are presented net of certain expenses, such as trading losses, as well as transaction costs and funding costs which can be directly associated to such revenues. We also deduct from our revenues included in our adjusted income statement the cost of funding of our net equity, which is separately reported as a revenue under “interest and other.” General and administrative expenses that are typically incurred to support our operations are presented separately in our adjusted income statement.	We present the break-down of our expenses in accordance with standards established by COSIF. Pursuant to COSIF, financial expenses, such as the costs incurred to fund our positions, and trading losses, such as the net losses incurred in connection with derivative transactions, are presented as separate line items and are not deducted from the financial revenues with which they are associated. Transactions costs, such as brokerage fees, are usually capitalized as part of the acquisition cost of assets and liabilities in our inventory. General and administrative expenses typically incurred to support our operations are presented separately in our income statement.
Revenues from our principal investments	Revenues are presented net of funding costs, including the cost of funding our net equity, and of trading losses, including losses from derivatives and from foreign exchange variations. Revenues are also reduced by associated transaction costs, and by management	Revenues from principal investments are included in different revenue line items of our income statement, including securities, derivative financial income and equity in the earnings of associates and jointly controlled entities. Losses from principal investments, including trading losses and derivative expenses, are

	Adjusted Income Statement	Income Statement
	and performance fees paid to asset managers and other fund service providers, including our own asset management unit.	presented as financial expenses in separate line items.
Revenues from our sales and trading unit	Revenues are presented net of funding costs, including the cost of funding our net equity, and of trading losses, including losses from derivatives and from foreign exchange variations. Revenues are also deducted from transaction costs.	Revenues from sales and trading are included in numerous revenue line items of our income statement, including securities, derivative financial income, foreign exchange and mandatory investments. Losses from sales and trading, including trading losses, derivative expenses and funding and borrowings costs are presented as financial expenses in separate line items.
Revenues from our corporate lending unit	Revenues are presented net of funding costs, including the cost of funding our net equity.	Revenues from corporate lending are included in certain revenue line items of our income statement, including credit operations, securities and derivative financial income. Losses from corporate lending, including derivative expenses, are presented as financial expenses in separate line items.
Revenues from our PanAmericano unit	Revenues consist of our proportional share of the profits of Banco PanAmericano, and are presented net of funding costs, including the cost of funding our net equity.	The results from our proportional share of Banco PanAmericano are recorded as equity in the earnings of associates and jointly controlled entities .
Salaries and benefits	Salaries and benefits include mainly compensation expenses and corresponding social security contributions.	Generally recorded as personnel expenses.
Bonus	Bonus expenses include our cash profit-sharing plan expenses, calculated as a percentage of our net revenues.	Generally recorded as employees' statutory profit-sharing.
Retention expenses	Retention expenses include the pro rata accrual of employee retention program expense.	Generally recorded as personnel expenses.
Administrative and others	Administrative and Others are expenses such as consulting fees, offices, IT, travel, and expenses for presentations and conferences as well as other general expenses.	Generally recorded as other administrative expenses, tax charges and other operating expenses.
Goodwill amortization	Goodwill amortization of investments in operating subsidiaries other than private equity investments.	Generally recorded as other operating expenses.
Tax charges, other	Tax charges are mostly comprised of	Generally recorded as tax charges other

	Adjusted Income Statement	Income Statement
than income tax	taxes applicable to our revenues which, by their nature, are not considered by us as transaction costs, including PIS, COFINS and ISS.	than income taxes.
Income tax and social contribution	Income tax and other taxes applicable to net profits.	Generally recorded as income tax and social contribution.

The differences discussed above are not exhaustive and should not be construed as a reconciliation of our adjusted income statement to our income statement as derived from our financial statements. The business units presented in our adjusted income statement should not be presumed to be operating segments under IFRS because our management does not rely on such information for decision-making purposes. Accordingly, our adjusted income statement contains data about our business, operating and financial results that are not directly comparable to our income statement or our financial statements and should not be considered in isolation or as an alternative to such income statement or financial statements. In addition, although our management believes that our adjusted income statement is useful for evaluating our performance, our adjusted income statement is not based on Brazilian GAAP, IFRS, U.S. GAAP or any other generally recognized accounting principles.

Assets Under Management

Assets under management, or AUM, consists of clients' assets (including our private wealth clients) that we manage across a variety of asset classes, including fixed income, money market, multi-asset funds and private equity funds.

Wealth Under Management

Wealth under management, or WUM, consists of private wealth clients' assets that we manage across a variety of asset classes, including fixed income, money market, multi-asset funds and private equity funds, including through our asset management products. Accordingly, a portion of our WUM is also allocated to our AUM to the extent that our wealth management clients invest in our asset management products.

Assets Under Administration

Assets under administration, or AUA, represents all the financial properties and assets to which we provide administration services, including proprietary, third parties and wealth management funds and/or collective investment vehicles. These assets are not necessarily managed by our asset management unit.

Average Balances

Unless the context requires otherwise, (i) average balances of our Brazilian government bonds portfolio, credit portfolio, repurchase agreements, reverse repurchase agreements and CDB and CDI funding portfolio were calculated for any full-year period, by adding the final balance at December 31 of the previous year and the final balance at June 30 and December 31 of the year in respect of which the average balance is being reported and dividing the sum of such balances by three and (ii) our broader credit portfolio which is presented exclusively in the adjusted income statement, and includes loans, receivables, advances in foreign exchange contracts, securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), were calculated for any full-year period, by adding the initial balances of the period with the final balances of each quarter in the period in respect of which the average balance is being reported and dividing the sum of such balances by five and four, respectively.

Merchant Banking and Private Equity Activities

Our private equity activities are part of our asset management business unit and refer to our management of private equity funds whose capital is sourced from third party qualified investors (including other members of the BTG Pactual Group) as well as our own capital. When we or other members of the BTG Pactual Group make investments in funds and investment vehicles managed by us, we refer to such activities as merchant banking activities. Merchant banking activities are part of the principal investments business unit.

Rounding

Certain percentages and other amounts included in this Offering Memorandum (including our financial statements) have been rounded off to facilitate their presentation. Accordingly, figures shown as totals in certain tables may not be an arithmetical aggregation of the figures that precede them.

Convenience Translation

Solely for the convenience of the reader, we have converted certain amounts contained in the sections entitled “Summary,” “Capitalization,” “Selected Financial Information,” and elsewhere in this Offering Memorandum from *reais* into U.S. dollars. Except as otherwise expressly indicated, the rate used to convert such amounts was R\$2.0435 to US\$1.00, which was the exchange rate in effect as of December 31, 2012, as published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. The U.S. dollar equivalent information presented in this Offering Memorandum is provided solely for the convenience of the reader and should not be construed as implying that the amounts presented in *reais* represent, or could have been or could be converted into U.S. dollars at such rates or at any other rate. The *real*/U.S. dollar exchange rate may fluctuate widely, and the exchange rate as of December 31, 2012 may not be indicative of future exchange rates. See “Exchange Rates” for information regarding the *real*/U.S. dollar exchange rates.

SUMMARY

This summary contains selected information about us. It does not contain all of the information that an investor should consider before making a decision to invest in the Notes. For further information on our business and this offering, you should read this entire Offering Memorandum carefully, including our financial statements, the related notes and the sections “Presentation of Financial and Other Information,” “Summary Financial Information,” “Risk Factors,” “Selected Financial and Operating Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Overview

We are an investment bank, asset manager and wealth manager with a dominant franchise in Brazil. In addition, we have established a successful international investment and distribution platform. We were founded in 1983 and have operated as a meritocratic partnership since our inception. Currently, we have offices on four continents, and provide a comprehensive range of financial services to a Brazilian and global client base that includes corporations, institutional investors, governments and high net worth individuals, or HNWI.

Our Business

Our seven business units are:

- **Investment Banking**, which provides financial advisory and capital markets services;
- **Corporate Lending**, which offers financing and loan guarantees to corporations;
- **Sales and Trading**, which offers financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes;
- **Asset Management**, which offers asset management services with a broad range of products across major Brazilian and international asset classes to Brazilian and international clients;
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI;
- **PanAmericano**, our commercial and consumer banking business conducted through Banco PanAmericano, an independent Brazilian bank that we have co-controlled since mid-2011, which focuses on granting automobile loans, direct consumer loans, payroll deduction loans, middle market loans and mortgages, primarily to individuals and corporations in Brazil; and
- **Principal Investments**, which involves our capital investments with respect to a broad range of financial instruments, including merchant banking and real estate investments in Brazil and investments in a variety of financial instruments in global markets, which investments are primarily managed by our asset management unit.

We are committed to further expanding our platform outside of Brazil and in 2012 we acquired Celfin, a leading broker dealer in Chile that also operates in Peru and Colombia and Bolsa y Renta, a leading broker dealer in Colombia. Both Celfin and Bolsa y Renta have a wide array of products and services (concentrating in investment banking, sales and trading, asset management and wealth management). We intend to further expand their operations to include many of the additional products and services we currently offer in Brazil.

We believe our transactions with Celfin and Bolsa y Renta represent milestones in our efforts to replicate our history of success in Brazil throughout Latin America, and uniquely position us as a true leader throughout the region.

Our Group

We are part of the BTG Pactual Group, which includes both Banco BTG Pactual and BTGI. The two entities are sister entities that have the same ultimate beneficial owners. We, the principal operating company in the group, were founded as a small broker-dealer and have grown by creating new business units and expanding the activities within these business units. BTGI, the investment vehicle for many of the BTG Pactual Group's principal investments (including most of its non-Brazilian investments and certain of its Brazilian investments), was originally formed in late 2008. BTGI acts as a vehicle for part of the principal investment business of the BTG Pactual Group, and has no operating activities or employees. Its assets are managed by our asset management unit, which receives arm's length fees and commissions from BTGI for its services. Such fees and commissions are primarily recorded by us as revenues in our asset management unit. BTGI will not participate in any offering of Notes under the Programme as either an issuer or a guarantor.

As of December 31, 2012, the BTG Pactual Group had approximately 2,200 professionals and offices on four continents: South America (São Paulo, Rio de Janeiro, Brasília, Recife, Porto Alegre, Belo Horizonte, Santiago, Lima, Medellin and Bogota), North America (New York), Europe (London) and Asia (Hong Kong).

On April 30, 2012, the BTG Pactual Group completed its initial public offering, consisting of 103,500,000 units, each representing, directly or through depositary receipts, (i) one common share and two preferred shares of our capital stock and (ii) one voting share and two non-voting shares of BTG Pactual Participations. The majority of these units were listed in Brazil on the BM&FBOVESPA, and 129,000 units were also listed in Europe on the Alternext Amsterdam, the multilateral trading facility operated by Euronext Amsterdam N.V. The majority of the units offered in the initial public offering are represented by primary securities, resulting in gross proceeds to the BTG Pactual Group of approximately R\$2,587.5 million, of which Banco BTG Pactual received R\$2,070.0 million. We have used, and expect to continue to use, our portion of the proceeds from the initial public offering of the BTG Pactual Group to, among other things, increase our corporate lending and sales and trading operations and develop new lines of business.

Our Results and Financial Condition

For the year ended December 31, 2012, our revenues were R\$5,619.8 million and our net income was R\$2,061.2 million. As of December 31, 2012, our shareholders' equity was R\$10,101.5 million, and we managed a total of R\$121.5 billion in our asset management unit and R\$62.2 billion in our wealth management unit. Our different business units produce a combination of fee and trading revenues that have allowed us to consistently generate strong earnings growth and positive returns on equity through varying and at times difficult economic and market conditions. For the five years ended December 31, 2012, our average return on equity was 21.5%, with no year being lower than 17.7%.

The following table shows key performance data for Banco BTG Pactual for the periods indicated:

	As of and for the year ended December 31,			CAGR
	2010	2011	2012	2010-2012
	(in R\$ millions, except as otherwise indicated)			%
Total revenue ⁽¹⁾	1,983.8	2,647.1	5,619.8	68.3%
Net income	810.9	1,477.1	2,061.2	59.4%
Shareholders' equity	5,602.5	6,339.8	10,101.5	34.3%
ROAE ⁽³⁾⁽⁴⁾ (%)	18.3%	24.7%	25.1%	17.1%
AUM and AUA (in R\$ billions) ⁽²⁾	91.5	120.1	170.7	36.6%
WUM (in R\$ billions) ⁽²⁾	31.2	38.9	62.2	41.2%
BIS capital ratio	21.5%	17.7%	17.3%	(10.3)%

(1) Derived from our unaudited adjusted income statement.

(2) Unaudited.

(3) We determine our average shareholders' equity based on the initial and final net equity for the period.

(4) Figures are presented on an annualized basis.

Our Partnership

We operate as a partnership, currently with 186 Partners, who are also executives in our group. The Partners currently own 75.21% of our equity, and 71.91% of our equity is part of our partnership, and we refer to such equity as "Partnership Equity." Our 36 most senior Partners, who we consider to be key contributors to our success, own approximately 63.98% of our equity. The members of a consortium of investors who purchased our equity in December 2010 currently own 9.40% of our equity, and the remaining equity is owned by Partners (including Participating Partners), Celfin partners, Bolsa y Renta partners and the persons who purchased units in the initial public offering of the BTG Pactual Group or thereafter in the public markets.

We believe the key to our success is our partnership model. We believe this model (i) fosters a culture of teamwork, talent development, entrepreneurship, meritocracy and long-term commitment, (ii) substantially enhances the integration of our seven complementary business units and maximizes cross-selling of our products, (iii) allows us to maintain an intense commitment to our clients, and identify and capitalize on opportunities in the Brazilian and international financial markets, (iv) substantially enhances our ability to attract the best available talent and (v) greatly facilitates our ability to consistently maintain a lean and cost efficient organizational structure. As a result of this model, and the integration of our businesses, we have a diversified revenue mix and low cost-to-income ratio and have consistently achieved financial results that we believe exceed those of our competitors.

In contrast to other investment banking and asset management firms in Brazil and worldwide that have sold equity to the general market in the past, we have implemented several concrete steps to ensure that our partnership model will not change as a result of our initial public offering completed in April 2012. Most importantly, our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives) at book value. Such right will continue with respect to all of the Partnership Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the BTG Pactual Group in its entirety. We believe that the substantial ownership position of our Partners and the maintenance of our partnership in which Partnership Equity is bought and sold at book value on a meritocratic basis will (i) ensure the continued commitment of our most important executives to our success following our initial public offering, (ii) permit us to maintain our unique culture and the competitive advantage it grants us and (iii) permit us to attract and retain future generations of talent, all of which create an unprecedented alignment of the interests of our senior management with the interests of public shareholders. See "Our Partnership."

Our Core Values

Our organization is built and operates on the following set of 12 core values:

Strategic Focus: How we set our strategic direction

- Client focused
- Alpha-based
- Global thinking and presence
- Long-term ambition

People: How we work

- Partnership
- Teamwork
- Hard-working and hands-on
- Grow our own talent

Performance Management: How we achieve superior results

- Meritocracy
- Entrepreneurship
- Excellence
- Bottom line driven and cost conscious

We believe that the culture that results from these core values differentiates us in the market, leads to an integrated organization and ensures superior results.

Our Competitive Strengths

We believe that our competitive strengths include:

Substantial Presence in Brazil, where we Are a Dominant Investment Bank, Asset Manager and Wealth Manager, with a Leading Franchise in the Businesses We Operate

We are one of the leading players in Brazil's financial services industry, which we believe to be one of the most attractive financial services markets globally. Given our substantial presence in Brazil, we believe that we are positioned to participate in the vast majority of significant merger and acquisition, financial advisory and capital markets transactions involving Brazilian companies.

Dominant franchise. We are one of the premier brands for investment banking and asset management in Brazil and one of the largest independent investment banks based in the emerging markets. Among other things, we:

- were bookrunners in approximately 50% of all public equity offerings completed in Brazil from 2004 to 2012, and the leading equity underwriter in terms of number of bookmanaged transactions according to ANBIMA. In terms of total volume underwritten, we were the leading underwriter of equity issued by companies listed on BM&FBOVESPA in 2004, 2005, 2007, 2009 and 2012, and the second largest equity underwriter in 2006 and 2011, according

to ANBIMA. In 2010, we were the leading equity underwriter in terms of total deals completed according to ANBIMA;

- were ranked first in Brazilian M&A advisory rankings according to Thomson in 2010 and 2011 and provided advisory services in 255 announced M&A transactions from January 1, 2007 through December 31, 2012;
- have an equity research team named among the best research teams in Brazil from 2006 to 2012, and the best research team in Latin America in 2012, according to *Institutional Investor*;
- are one of the largest equity brokerage houses in Brazil in terms of total volume of securities traded, according to BM&FBOVESPA;
- are the largest asset manager in Brazil, excluding retail banks, according to ANBIMA (December 2012), with R\$121.5 billion in AUM and R\$170.7 billion in AUA as of December 31, 2012;
- had approximately R\$62.2 billion of WUM as of December 31, 2012; and
- received a number of awards recognizing the excellence of our asset management platform, including: the Best Research team (Latin America and Brazil) and Best Sales and Trading Services team (Brazil) by *Institutional Investor* (2012), the Best Fund Manager in Brazil in 2012 and 2011 by *Exame* magazine – one of Brazil's leading financial magazines, the Best Fund Manager in the Largest Fixed Income and Flexible Mixed Allocation categories in 2012 by Standard & Poor's and *Valor Econômico* – Brazil's leading financial newspaper in 2012, the Best Global Macro Hedge Fund (for our GEMM fund) in 2012 and 2010 by *Euro Hedge Awards*, the Best Fixed Income Fund Manager in 2011 by Standard & Poor's and *Valor Econômico*, Best Active Multi-Market, Best Active Fixed Income, Best Conservative Fixed Income and Best Wholesale Fund Manager in 2011 by FGV (Fundação Getúlio Vargas) and *Exame* magazine, Best Multi-Market (Interest Rate and Currency) and Conservative Fixed Income Fund Manager in 2010 by FGV (Fundação Getúlio Vargas) and *Exame* Magazine, Best Multi-Market Fund Manager in 2010, Best Fund Manager in Brazil in the equities category from 2007 to 2009, the Top Fixed Income fund manager for 2007 and 2008 and the Best Multi-Asset Funds for 2010 by Standard & Poor's and *Valor Econômico*.

We believe we have a vast knowledge of the Brazilian financial market, can identify business opportunities and trends more quickly and accurately than our competitors in Brazil and, due to our flat management structure and strong capital base, can act more effectively on such business opportunities.

We also have an extensive network of long-standing business contacts and corporate relationships, and we believe we have a strong brand and a reputation for excellence among our target corporate and individual client base.

Attractive opportunities for further growth of our core franchise. The Brazilian financial services industry has grown significantly in recent years, and we believe it is poised for further growth, creating attractive opportunities for the leading market participants such as ourselves. The market for financial services has grown as a result of economic stability and the gains in economic growth momentum and the increase in such services have in turn played a key role in further advancing such improvements in macroeconomic performance.

As a result, according to the CVM, Brazilian issuers engaged in 76 equity transactions raising R\$75.5 billion in 2007, in 13 equity transactions raising R\$34.9 billion in 2008, in 24 equity transactions raising R\$47.1 billion in 2009, in 25 equity transactions raising R\$152.2 billion in 2010, in 25 equity transactions raising R\$19.2 billion in 2011 and in 13 equity transactions raising R\$14.3 billion in 2012, as compared to only six equity transactions raising R\$6.1 billion in 2002. Brazilian issuers engaged in 57 debt transactions raising R\$17.8 billion in 2007, in 82 debt transactions raising R\$32.6 billion in 2008, in 170 debt transactions raising R\$48.1 billion in 2009, in 242 debt transactions raising R\$75.4 billion in 2010, in

356 debt transactions raising R\$86.3 billion in 2011 and in 358 debt transactions raising R\$190.1 billion in 2012, as compared to only 43 debt transactions in Brazil raising R\$3.3 billion in 2002, according to ANBIMA.

Consistent with this increase in the number of equity and debt transactions, total credit volume in Brazil grew from 25.7% of GDP in December 2004 to 53.6% of GDP in December 2012 according to the Central Bank.

Despite the considerable progress already made, we believe Brazil still has substantial potential for further improvements in macroeconomic performance and in the financial sector. We believe the conditions for such improvement are already in place. In particular, there is potential for greater penetration of the Brazilian capital markets, and Brazil is well-positioned to gain importance as a provider of financial services to other regional economies. Investor interest in the equity and debt securities of Brazilian companies remains strong given Brazil's strong growth prospects, and Brazilian issuers are expected to need substantial additional funding.

The Brazilian asset management industry has also grown considerably, with AUM growing from R\$739.0 billion as of December 31, 2000 to R\$2,261.9 billion as of December 31, 2012, according to ANBIMA, of which 9.0% corresponds to investments in equity securities. We expect the growth in the size and sophistication of the capital and asset management markets to continue the trend of the last decade. In 2012, the Brazilian gross disposable income was R\$4,339.3 billion, compared to R\$1,653.6 billion in 2003, representing an increase of 162.4% and an average compound annual growth, or CAGR, of 11.3%, according to the IBGE. We believe that increasing wealth in Brazil will stimulate growth in all our business units.

Established International Asset Management Platform

We have an international asset management platform in London, New York and Hong Kong that, together with our São Paulo and Rio de Janeiro offices, provides Brazilian, emerging market and global investment products and services to our local and international client base. We have over 90 professionals, including 19 of our most senior executives, in our international offices dedicated exclusively to the international asset management business. Our flagship international hedge fund, GEMM, was awarded Best Global Macro Hedge Fund in 2010 and 2012 by EuroHedge Awards, a leading trade publication.

Broad Network of International Contacts

The members of the Consortium who have invested in our equity in December 2010 include affiliates of the Government of Singapore Investment Corporation Pte Ltd (GIC), China Investment Corporation (CIC), Ontario Teachers' Pension Plan Board (OTPP), Abu Dhabi Investment Council (ADIC), J.C. Flowers & Co. LLC, RIT Capital Partners plc, Marais LLC, the Santo Domingo Group of Colombia, EXOR S.A., the investment company controlled by the Agnelli family of Italy, and Inversiones Bahía, the holding company of the Motta family of Panama. These investors provide us with a broad range of business contacts throughout Asia, the Middle East, Europe and North and South America, and since their entrance into our capital structure, we have successfully leveraged these contacts to strengthen many of our principal businesses and realize additional revenues. As part of the initial public offering of the BTG Pactual Group in April 2012, Europa Lux III S.a.r.l, RIT Capital Partners plc, Marais LLC, EXOR S.A. and Rendefeld, S.A. sold part of their equity interest in the BTG Pactual Group.

Our acquisitions of Celfin and Bolsa y Renta have already provided us with substantial additional contacts throughout the Andean region, and we have begun to leverage these contacts to gain substantial new relationships and mandates that we believe neither we nor Celfin or Bolsa y Renta might have gained on a stand-alone basis. Finally, we participated as an anchor investor in the September 2011 initial public offering by CITIC Securities Co., or CITICs, a leading Chinese investment bank. We are currently working with CITICs to jointly develop a number of business initiatives, including by co-advising clients seeking to execute transactions involving Chinese and Latin American companies.

Distinctive Culture Stressing Intellectual Capital, Meritocracy, Entrepreneurship and an Unprecedented Alignment of Interests

We operate under a partnership model and a flat management structure that emphasizes the value of intellectual capital, entrepreneurship and meritocracy. We believe this model is the key to our success. We are managed by our Senior Management Team covering our Brazilian and international operations. We have 186 Partners that currently own, directly or indirectly, approximately 75.21% of our equity.

We consider our personnel to be our most valuable asset and believe that our culture and partnership structure allows us to attract, retain and motivate highly talented professionals. Our recruiting strategy and training are aimed at producing future Partners. The commitment of our personnel to our culture and success is reinforced through the recognition of individual merit and a variable compensation system that rewards teamwork, entrepreneurship and initiative, and eventually results in our most valuable professionals becoming vested in the success of our business as Partners. We believe that our partnership model, recruitment strategy and management structure result in our achieving substantially less turnover at the middle and senior management levels than our Brazilian and international competitors.

Our culture also stresses an alignment of interests between our shareholders, including both the members of the Consortium and our public shareholders, and our professionals. Virtually all of our key professionals are Partners and their respective equity ownership in Banco BTG Pactual and BTGI represents significant portions of their personal wealth (and in most cases, the vast majority of such wealth). For our 25 most senior Partners, including our senior traders and investment managers, the earnings and capital appreciation on their equity in the BTG Pactual Group exceed the amount they earn in salary and bonuses. We believe that this creates an unprecedented alignment of interests that encourages (i) a rigorous analysis of the risks that we take in our trading and principal investments activities, (ii) our pursuit of strategies that emphasize long-term, consistent and profitable growth, (iii) a long-term commitment to our clients and our reputation, (iv) the maintenance of a lean organizational structure and decision-making process and (v) a strong focus on cost controls.

Consistent with our long standing strategies, we have taken concrete steps aimed at ensuring that our partnership model remains in effect for the foreseeable future so that both our Partners and our public shareholders continue to enjoy the financial and strategic benefits which we derive from this model. See “Our Partnership.”

Our Track Record of Strong Growth with Consistent Profitability through Various Economic Cycles while Maintaining Strong Capital Ratios and Rigorous Risk Controls

A substantial portion of our Senior Management Team is based in Brazil and has many years of experience leading us throughout various economic cycles, including the Asian crisis (1997), the Russian crisis and Long Term Capital Management crisis (1998), the crisis following Brazil’s currency devaluation (1999), the end of the so-called “Internet bubble” (2000-2001), the Argentine debt default (2002), the market volatility related to the Brazilian presidential elections (2002-2003) and the recent international financial crisis.

We have generated strong and consistent returns on our capital throughout these various cycles. We have been profitable during each of the last 15 years ended December 31, 2012. For the five years ended December 31, 2012, our average return on equity was 21.5%, with no year being lower than 17.7%.

While we seek to generate strong and consistent earnings, we also focus on consistently maintaining strong capital ratios and an adequate risk profile. Our capital adequacy ratio at the end of each year from 2008 to 2012 has been on average 20.3%. As of December 31, 2012, we had a capital ratio of 17.3%. We believe that our track record of consistently maintaining a higher capital ratio than that required by the Central Bank, while consistently generating attractive returns on equity, highlights our ability to deploy capital efficiently.

Similarly, we maintain a rigorous discipline of risk management and internal controls. We monitor our risks on a daily basis; looking at all dimensions that we believe are relevant to our operations, including

market risk, credit risk, liquidity risk, counterparty risk and operational risk. In our risk control framework, we adopt risk models that allow us to measure risks based on the past behavior of markets (VaR) and on our stress test scenarios and simulations. Our senior Partners, who are responsible for the management of the BTG Pactual Group's risks, are closely involved in the execution of the daily operations, and have a deep understanding of the markets in which we conduct our operations. We also have a separate risk management team led by a member of our Senior Management Team. As a consequence, risk management is an integral part of our decision-making process, which we believe has allowed us to maintain consistent returns, and to optimize the use of our capital.

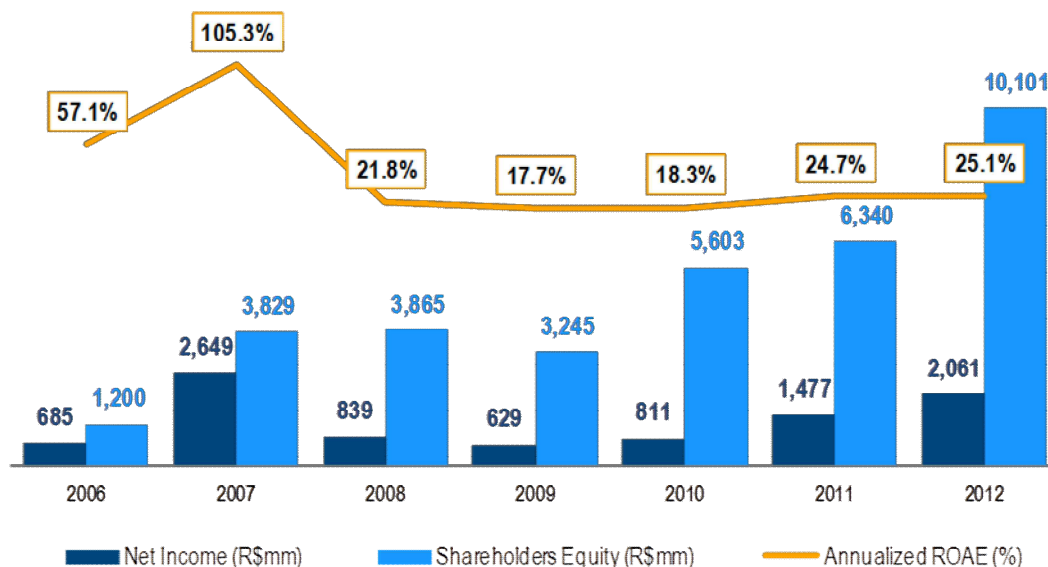
The following table sets forth our average daily VaR for the years indicated:

	For the year ended and as of December 31,		
	2010	2011	2012
Total average daily VaR.....	21.6	28.4	60.5
Average daily VaR as % of average equity ⁽¹⁾	0.49%	0.47%	0.74%

(1) Unaudited

We believe that our risk management policy applies the best practices, which have been tested in extremely adverse conditions, including during the 2008 financial crisis. In addition, given that the vast majority of our Partners' personal wealth consists of their respective equity interests in the BTG Pactual Group, we believe that the interests of the persons taking and monitoring risk at the BTG Pactual Group are more fully aligned with our non-executive shareholders than is the case at our competitors, reinforcing our rigorous risk control and long-term profit strategies.

The following chart shows our net income, shareholders' equity and return on average equity for the periods indicated:



Experienced Management Team and Motivated Work Force

We have a group of highly talented professionals with a strong reputation in the Brazilian and international financial markets. This group was responsible for establishing and implementing the strategies that permitted us to become one of Brazil's leading financial institutions. Our team includes André Santos

Esteves, who was named in 2012 one of the 50 most influential people in global finance by *Bloomberg* and Person of the Year by the Brazilian-American Chamber of Commerce and, in 2010, was named one of the 25 most powerful people in the world of investment banking by *Institutional Investor*, and Persio Arida, who was the President of the Central Bank in 1995, President of the BNDES from 1993 to 1994, and one of the key economists to lead the creation and implementation of the *Real Plan*. Outside of Brazil, our team includes numerous executives with substantial experience in international institutions acting as traders of G-10 and non-Brazilian emerging markets securities or as top executives in global investment banking and asset management business units. These team members have been selected based on both their previous histories of success and our belief that they shared our distinctive business culture and would serve as the cornerstones for implementing this culture in our international offices and in our businesses generally going forward.

We believe that our workforce is highly motivated and efficient, in large part due to our partnership model. As a result, we have been able to achieve industry leading employee efficiency (measured by revenue per employee) which enables us to offer extremely attractive compensation that recognizes the contribution of our professionals. For the year ending December 31, 2012, the revenue per employee of the BTG Pactual Group (including BTGI, which is not an issuer in the Programme) was US\$2,023.3 thousand, while the estimated average for a group of other leading international investment banks composed of Goldman Sachs, Morgan Stanley and Credit Suisse was US\$668.9 thousand.

Our Diversified Portfolio of Businesses

We believe we have successfully diversified our business operations and sources of revenue to maximize opportunities for leveraging our client relationships across business units as well as to best position ourselves to exploit any changes in market conditions.

The following table shows our unaudited revenues breakdown by business unit, which was not prepared in accordance with Brazilian GAAP and materially differs from our income statement:

	For the year ended December 31,		
	2010	2011	2012
	(Unaudited - in R\$ millions)		
Investment banking.....	344.0	338.3	448.0
Corporate lending	251.1	366.5	563.6
Sales and trading.....	637.8	999.9	1,516.6
Asset management	298.4	443.2	1,190.2
Wealth management	103.5	144.5	201.7
PanAmericano ⁽¹⁾	0.0	(52.0)	(244.5)
Principal investments	201.6	(111.2)	1,356.9
Interest and other ⁽²⁾	147.5	518.1	587.2
Total revenues, net of direct expenses allocation.....	1,983.8	2,647.1	5,619.8

(1) Our commercial banking activities commenced after the acquisition of a co-controlling interest in Banco PanAmericano on May 27, 2011, and are conducted exclusively through that non-consolidated investment. Accordingly, we did not record any revenues for our PanAmericano business unit in 2010.

(2) Our revenues recorded under “interest and other” include the interest on our capital, which is the internal opportunity cost for remunerating our net equity, typically determined based on the CDI rate. The interest on our capital, recorded as “Interest and Other,” is in turn deducted as a funding cost directly from our business units’ revenues. The units primarily affected by such deductions are those which carry larger inventories of financial instruments (i.e., sales and trading, commercial lending and principal investments units), as their results are presented in our adjusted income statement net of the interest on our capital, as well as all other costs for obtaining external funding to finance their portfolios.

We believe that our strong market positions across the spectrum of financial services enable us to adapt quickly and prosper under changing market conditions. Our entrepreneurial culture leads us to consistently seek new and diversified revenue sources, including opportunities outside our traditional target market in Brazil, such as our May 2011 acquisition of Banco PanAmericano. We believe our diversification increases our potential to successfully grow our business and to maintain our profitability.

In addition, we believe our market strength within each of our business units allows us to maximize the value we obtain from our client relationships by using an integrated approach to cross-sell the services that we provide. For example, many of our significant asset and wealth management clients generated their wealth through public offerings that we have underwritten. This cross-selling is particularly advantageous within both the Brazilian market and the Andean region, where many wealthy families still control a significant share of local businesses and thus require a wide variety of financial services for both their personal wealth and the substantial businesses they control.

We believe that our solid research capabilities also contributed to our significant participation in equity underwritings in Brazil in addition to generating significant brokerage commissions for our sales and trading unit. Consequently, we currently provide our clients with both high quality asset and wealth management and financial advisory services – both in capital markets and M&A. In addition, our sales and trading and principal investments units cover multiple markets and different geographies, with a focus on building long-term relationships and delivering high quality execution.

Finally, we believe that we will achieve very attractive geographical diversification and significant synergies from the recent acquisitions of Celfin and Bolsa y Renta, and that the combination of the BTG Pactual Group, Celfin and Bolsa y Renta will create business opportunities not available to any of the companies on a standalone basis. See “Business—Celfin” and “Business—Bolsa y Renta.”

Strong and Diversified Funding Base with Proven Asset-Liability Management

We have a solid and diversified base for funding our operations through our private banking network, institutional client base, corporate client base, and in the capital markets. We are consistently able to fund our operations and to manage our liquidity risk. We seek to maintain a strong cash position, which is always sufficient to run our operations for 90 days assuming that we do not obtain new funding. Our balance sheet is in a large part composed of very liquid financial instruments, and we obtain funding from a diversified range of unsecured instruments from a broad range of sources. Also, we maintain a contingency plan to manage our liquidity under severely adverse market conditions. We enhanced our liquidity profile in (i) April 2011 through the issuance of R\$3.975 billion in local subordinated notes with an average maturity of 7.8 years, (ii) July 2011 with the issuance under the Programme of US\$500 million in senior notes due 2016 at an interest rate of 4.875%, (iii) September 2012 with the issuance of US\$800 million in subordinated notes due 2022 at an interest rate of 5.75%, (iv) September and October 2012 with the total issuance of the Colombian Peso equivalent of approximately US\$235 million in senior notes due 2017 at an interest rate of 7.0%, and (v) in January 2013 through the issuance of US\$1.0 billion in senior notes due 2020 at an interest rate of 4.00%. As of December 31, 2012, we had more than 300 depositors.

Our Strategy

Our principal strategies are:

Capitalize on Brazil’s Outstanding Growth Perspectives

We believe that Brazil has all of the conditions necessary to achieve outstanding growth in the financial services sector. These conditions include:

- a favorable macroeconomic environment and political stability;
- a sound institutional and regulatory framework;
- improved corporate governance;
- a sophisticated and deep domestic financial market;
- a highly attractive investment environment;
- a growing middle market and middle income consumer base; and

- numerous companies well-positioned to continue to grow and tap international markets.

Large investment opportunities have also been created by the exploration of the recently discovered pre-salt oil and gas reserves, and also by Brazil's hosting of the 2014 FIFA World Cup and the 2016 Olympic Games. These opportunities, combined with sustained growth in domestic income and consumption and significant demand for improvements in infrastructure, are expected to result in an important increase in capital expenditures in Brazil.

Multinational companies seeking higher growth continue to expand in Brazil, including through acquisitions, while at the same time numerous Brazilian companies have become multinational enterprises that are actively pursuing international acquisitions. A greater percentage of the Brazilian population is entering into higher income classes and becoming potential consumers of asset and wealth management products. Also, the middle market and low income consumer base is expected to continue to grow substantially as Brazil's GDP continues to grow.

We intend to continue to take advantage of the favorable Brazilian market conditions by using our expertise and ability to consolidate and expand our franchises and leverage our reputation among our current and prospective Brazilian and international clients interested in Brazil-related opportunities by, among other things:

- continuing to actively market our equity and debt capital markets services to Brazilian issuers, with a view toward maintaining and expanding our position as the leading Brazilian underwriter;
- seeking to expand our M&A advisory business, both for Brazilian companies seeking to acquire businesses in Brazil or abroad, and foreign companies seeking to acquire Brazilian businesses and assets;
- continuing to be the leading independent Brazilian asset manager and a leading independent wealth manager and expanding our efforts to market these products;
- seeking to continuously develop new and sophisticated FICC products for our corporate clients to meet their needs as they grow both in Brazil and internationally;
- taking advantage of private sector and pre-IPO investment opportunities sourced through our extensive Brazilian network;
- continuing to develop the business conducted in our regional Brazilian offices outside of São Paulo and Rio de Janeiro; and
- expanding our credit products and derivatives portfolio, leveraging Banco PanAmericano's independent commercial and consumer banking platform and taking advantage of expected growth in the Brazilian middle market and middle income consumer base.

Maintain Our Distinctive Culture

In contrast to other investment banking and asset management firms in Brazil and worldwide that have sold equity to the general market in the past, we have implemented several concrete steps to maintain our partnership model following our initial public offering completed in April 2012. Currently, the Partners own approximately 75.21% of our total equity, and 71.91% of our equity is Partnership Equity that is owned by our Partners as part of our partnership. Our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives) at book value. Such right will continue with respect to all of the Partnership Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions. Accordingly, none of our Partners sold any units or

underlying securities in our initial public offering or are expected to sell such securities for the foreseeable future (i.e., we expect that the Partnership Equity will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the entire BTG Pactual Group). These mechanisms result in a substantial amount of the economic burden of incentivizing our most important executives to fall on our existing Partners, rather than Banco BTG Pactual or the persons who purchased units in our initial public offering or in the open market following our initial public offering.

We believe the mechanisms described above create an unprecedented alignment of interests between our Partners, who currently own 75.21% of our equity, and our public shareholders, and minimized the changes to our culture following our initial public offering allowing us to continue our efforts to maximize value for our shareholders while simultaneously managing risk in a proactive manner. See “Our Partnership.”

Take Advantage of Attractive Growth Opportunities through Strategic Acquisitions

We intend to expand through selective acquisitions. We expect to focus on acquisitions that are complementary to our existing businesses, and that offer opportunities for growth and earnings accretion within our existing businesses. We may also seek to expand our investment banking and asset management activities to other Latin American and emerging markets. We believe that our recent initial public offering will enhance our capability and flexibility to execute strategic acquisitions by strengthening our balance sheet and allowing us to use our publicly traded securities as acquisition currency. See “Business—Significant Recent Developments.” We believe that our recent acquisitions of Celfin and Bolsa y Renta, as well as our 2010 acquisition of Companhia Operadora do Mercado Energético, or Coomex, an energy sales company, and our May 2011 acquisition of a co-controlling stake in Banco PanAmericano, are perfect examples of the type of acquisition we expect to pursue.

Expand Our International Operations

Our presence in important financial markets such as São Paulo, New York, London and Hong Kong enables us to better explore business opportunities arising in different regions and demonstrates our intention to continuously seek diversification. We believe there are attractive opportunities for selective continued expansion outside Brazil and intend to pursue these opportunities. We believe, for example, that our strong reputation and global presence will allow us to (i) expand our marketing of Brazilian and emerging markets asset management products to a global customer base, (ii) expand our investment banking business to other Latin American countries, (iii) attract additional talent and teams with experience in markets and products outside of Brazil where we currently do not have significant expertise, and (iv) expand the business that we conduct internationally with Latin American companies that are expanding globally.

Celfin is a leading broker dealer in Chile, a country with robust capital markets, that is a net exporter of capital. Similarly, Bolsa y Renta is one of the leading broker dealers by volume of equity transactions in Colombia, with a portfolio of US\$3.4 billion in wealth under management and US\$721.2 million in asset under management as of December 31, 2012. We believe that we can distribute many of our Brazilian and international asset management, wealth management and corporate finance products to the respective existing client bases of Celfin and Bolsa y Renta, who are seeking additional investment options, and that our extensive experience in mergers and acquisitions and corporate finance transactions will enhance their product offerings in these areas, permitting us to enhance the revenues that Celfin and Bolsa y Renta can generate from their respective impressive bases of leading Chilean and Colombian corporate clients.

We also see Colombia (where Bolsa y Renta is based and Celfin more recently commenced operations) and Peru (where Celfin has operations) as key to our efforts to achieve substantial additional geographic diversification. These countries, like Brazil a decade ago, have incipient capital markets, an expanding consumer class and numerous companies seeking capital for growth. We were among a small handful of financial institutions that led the efforts to develop and deepen Brazil’s debt, equity and mergers and acquisitions markets during the last decade, and believe that we can replicate our Brazilian success in Colombia and Peru to achieve significant market share in these markets, which we expect will grow

substantially in the coming years. We also believe that many Brazilian, Chilean, Colombian and Peruvian companies will seek to expand throughout Latin America, and that our local presence in each of these key Latin American markets makes us uniquely positioned to provide financial services to these companies. In addition, we have also entered into a strategic cooperation agreement with VTB Capital, a leading investment bank in Russia, to explore opportunities between Russia and Latin America.

Selectively Expand Our Portfolio of Credit Products and Derivatives

To support future growth and the corresponding new significant investment needs, Brazil will need to increase the availability of credit. The recent wave of equity offerings by Brazilian companies has greatly increased the number of potential Brazilian corporate borrowers with transparent financial disclosure and enhanced levels of corporate governance. Simultaneously, many other Brazilian companies have expanded their operations in recent years and are increasing their transparency in anticipation of a potential public offering. These two groups of companies are likely to need additional debt capital for growth and active management of their capital structure, and accordingly are attractive customers for our credit products.

In addition, as a result of the completion of our initial public offering, we believe that our funding costs will continue to decline and we will have a greater variety of financing options available. We believe these cheaper and more diversified sources of funding will facilitate our efforts to selectively expand our credit products (including derivatives, securitizations, structured credits and pre-IPO financings) on a profitable and prudent basis.

We plan to expand our offering of credit products and derivatives to our current and prospective clients, including through our commercial banking platform. We expect to primarily exploit credit opportunities that are linked to our other core business units – in particular investment banking – and also those that involve structured products and derivatives. We intend to continue to analyze credit opportunities closely, performing rigorous analyses of prospective borrowers' businesses and existing and prospective financial condition and results, in order to select opportunities which will satisfy our stringent standards for achieving high returns within acceptable risk parameters. We consider Banco PanAmericano's origination platform another step in implementing these strategies, as such platform originates consumer finance and middle market assets on a primary basis that are complementary to the credit that we originate through our own platform.

Continue to Develop Our Merchant Banking and Private Equity Businesses

We believe that our ability to provide permanent capital to our clients is an important competitive advantage. Accordingly, the BTG Pactual Group intends to continue to develop its merchant banking and private equity businesses, primarily with respect to investments in Brazil. We believe that the BTG Pactual Group's network of contacts and significant deal flow grants us access to numerous attractive investment opportunities that may not be available to our competitors, and that as a result we will be able to attract third party investors to private equity and similar funds for which we will act as the investment manager and generate management and performance fees for our asset management unit. We also expect BTGI to serve as the anchor investor and have a meaningful equity ownership in certain of such entities and funds in connection with the merchant banking activities of the BTG Pactual Group and accordingly generate revenue for the principal investments unit. For example, in June 2011, we closed our new private equity fund of approximately US\$1.5 billion, US\$490 million of which came from BTGI. We intend to raise such funds and pursue investment opportunities (i) using the capital of such funds, (ii) through co-investments with other financial investors or (iii) using solely the BTG Pactual Group's own capital. We believe the continued development of these businesses will also contribute to our other business units through cross-selling opportunities.

Significant Recent Developments

Real Estate. On January 31, 2012, we and Banco PanAmericano entered into definitive agreements to purchase 100% of the shares of BFRE. The total purchase price (subject to adjustment) was approximately R\$1.21 billion (without including the R\$335 million purchase price of certain assets by us

described below), of which R\$940 million was paid by PanAmericano and R\$270 million was paid by us. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The first such company, which we acquired, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In addition, we paid approximately R\$335 million (subject to adjustment) to purchase certain real estate and equity investment funds held by BFRE. The remainder of the businesses conducted by BFRE will remain in the second company, which was purchased by Banco PanAmericano.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE.”

Banco PanAmericano. On January 18, 2012, Banco PanAmericano’s shareholders approved a capital increase in an amount up to R\$1.8 billion with an issue price of R\$6.05 per share. We and CaixaPar Participações S.A. (“CaixaPar”) committed to exercise preemptive rights for an aggregate amount of R\$1.335 billion, with our share amounting to R\$677.0 million. However, we agreed that, upon the request of TPG-Axon Capital Management LP, or TPG-Axon, we would transfer part of our preemptive rights with respect to a total of R\$182.0 million of our R\$677.0 million commitment. TPG-Axon exercised its right to obtain such preemptive rights and, in April 2012, subscribed for preferred shares representing, after the capital increase, 12.0% of Banco PanAmericano’s preferred shares and 5.55% of its total capital stock, thus reducing our capital contribution to R\$495.4 million.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE.”

Celfin. On November 13, 2012, we concluded the purchase of all of the outstanding shares of Celfin. In connection with the transaction, we paid the owners of Celfin a total of US\$451.5 million in cash, and the former owners of Celfin acquired approximately 2.2% of the total outstanding equity interests in Banco BTG Pactual and BTGI for R\$391.8 million and US\$49.1 million, respectively. Such equity interest is subject to repurchase by us at a nominal amount in certain limited circumstances during the four years following completion of the transaction. Such provisions are designed to provide the former shareholders of Celfin with incentives to remain active participants in the combined entity following the transaction, and we expect that they will do so.

On November 29, 2012, we filed with the Central Bank and the Chilean Banking Regulator (*La Superintendencia de Bancos e Instituciones Financieras de Chile*), or SBIF, a request to obtain a banking license in Chile. The granting of a banking license in Chile requires three separate authorizations from the SBIF, which must be obtained sequentially, the first of which we have not yet obtained. We expect to obtain a banking license in Chile in the second half of 2013.

As of December 31, 2012, Celfin had consolidated shareholders’ equity and total assets of R\$923.5 million and R\$2,153.7 million, respectively, prepared in accordance with Brazilian GAAP. For accounting purposes, the date of the Celfin acquisition is October 31, 2012. We recorded goodwill in the amount of R\$726 million.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Celfin.”

Initial Public Offering. On April 30, 2012, the BTG Pactual Group completed its initial public offering.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Initial Public Offering.”

Bolsa y Renta. On June 14, 2012, we entered into a definitive agreement to purchase 100% of the outstanding shares of Bolsa y Renta, one of Colombia's largest equity brokerage firms in terms of transaction volume, for approximately US\$51.9 million, thus concluding negotiations initiated with Bolsa y Renta in 2011. On December 20, 2012, we concluded the purchase of all of the outstanding shares of Bolsa y Renta for a total consideration of US\$58.4 million in cash, and the former owners of Bolsa y Renta acquired equity interests in us and BTG Pactual Participations equal to R\$52.5 million and US\$6.4 million, respectively, representing approximately 0.25% of the capital stock of each company (calculated based on our outstanding capital stock and the outstanding capital stock of BTG Pactual Participations as of the date of this Offering Memorandum). The value of the equity investment was negotiated and pre-determined in U.S. dollars at the end of 2011, prior to our initial public offering. We expect that Bolsa y Renta's current executives will continue to manage operations in Colombia and, accordingly, we anticipate paying additional amounts in the form of retention bonuses and deferred compensation to certain of the Bolsa y Renta's executives from the second through the fourth anniversaries of the date on which we entered into a definitive agreement with respect to the transaction.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Bolsa y Renta."

Insurance Activities. On December 20, 2012, our subsidiary BTG Pactual Seguradora S.A. received authorization from SUSEP to offer insurance products in Brazil. We have committed initial capital of R\$50.0 million to such activity and intend to commence operations by offering surety bonds. Furthermore, we have also requested authorization from SUSEP to offer reinsurance and retrocession services, which remains subject to approval.

Bamerindus. On January 30, 2013, we entered into definitive agreements related to our acquisition of certain credits and rights held by Fundo Garantidor de Créditos, or FGC, against Banco Bamerindus do Brasil S.A., or Bamerindus, in extrajudicial liquidation, and other companies in Bamerindus's economic group. In connection with the transaction, we will pay approximately R\$418.0 million to FGC in five installments, the first of which will be paid at the closing of the transaction and the other four on the first through fourth anniversary of the closing. The four installments will be adjusted by CDI. This transaction will result in us acquiring (i) control of Bamerindus and its subsidiaries, (ii) an interest in Bamerindus greater than 98.0% of its total and voting capital, and (iii) the receivables and assets held by the Bamerindus, which will be used in the context of our credit operations. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals, the completion of the extrajudicial liquidation of Bamerindus and its subsidiaries, and the settlement of certain of their financial obligations in order for Bamerindus to have positive shareholders' equity. The transaction does not include the right to the Bamerindus brand. We expect the transaction to close no later than the third quarter of 2013, although there can be no assurance that the transaction will be concluded. We do not expect that the transaction, if consummated, will materially affect our financial condition or results of operations.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Bamerindus."

Our History

Our history began in 1983, when Pactual S.A. Distribuidora de Títulos e Valores Mobiliários, or Pactual D.T.V.M., was founded in Rio de Janeiro as a securities dealer and a new entity named Pactual Administração e Participações Ltda., or Pactual Limitada, was formed to operate an asset management business.

In 1986, Pactual D.T.V.M. obtained a license to operate as an investment bank which was named Pactual S.A. Banco de Investimentos.

In 1989, Pactual S.A. Banco de Investimentos established a branch in São Paulo, our first office outside Rio de Janeiro, and obtained a license to become a multiple-service bank (*banco múltiplo*) authorized to engage in commercial banking, investment banking, portfolio management, foreign exchange, real estate financing and savings and loans operations. As a result, the bank was renamed Banco Pactual S.A. In the same year, Pactual Overseas Corp. was incorporated to carry out our international activities.

In 1998, we acquired the Sistema group, a small financial services group composed of Banco Sistema S.A. (currently BTG Pactual Corretora de Títulos De Valores Mobiliários S.A.), Sistema Banking Corp. Ltd. (a Cayman Islands subsidiary of Banco Sistema S.A. – which was renamed BTG Pactual Banking Limited) and Sistema Leasing S.A. (currently BTG Pactual Serviços Financeiros S.A. DTVM). During this time many members of our current Senior Management Team became our Partners.

The period from 2000 to 2005 was essential to the expansion of our various business units. During these years several companies were created, including:

- BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários, a subsidiary created to segregate the asset management business unit;
- BTG Pactual Corretora de Mercadorias Ltda., a dedicated commodities and future broker-dealer;
- BTG Pactual Corretora de Títulos e Valores Mobiliários S.A., a securities broker-dealer;
- BTG Pactual Gestora de Recursos Ltda., which manages mutual funds and securities portfolios; and
- BTG Pactual Securitizadora S.A., a non-financial institution engaged in the securitization of real estate receivables.

Our current structure grants us increased cross-selling opportunities by enabling us to offer top-tier capabilities across a full range of products and regions. Such opportunities also facilitated the growth of our asset management and wealth management business units and the enhancement of our investment banking, sales and trading and principal investments business units. At the same time, Brazil was achieving economic stability and its prospects for growth were improving substantially. In this environment, we were able to anticipate, and thereafter lead, the strong development of the Brazilian capital markets that began in 2004, in offering different products to investors interested in equity and debt securities of Brazilian companies, and to have our asset and wealth management units benefit from the increasing wealth in Brazil.

In May 2006, UBS AG agreed to purchase us. Many of our principal Partners, including our CEO, CFO and COO, were selling shareholders in that transaction and remained as the senior management of the bank following the consummation of the sale in December 2006. We became “UBS Pactual,” the division of UBS AG acting in all Latin American countries, and our CEO became CEO of all of UBS’s Latin American operations. At the time of the acquisition, we were already a leading independent investment bank and asset manager in Brazil.

In July 2008, a group of our key senior Partners left UBS Pactual with the goal of establishing a new venture based on the same culture they had previously implemented at Banco Pactual S.A.

This group of our key senior Partners, jointly with some former managing directors of UBS AG and other executives with substantial experience acting in G-7 and emerging markets, including Brazil, created BTGI in October 2008, a global investment business with offices in São Paulo, Rio de Janeiro, London, New York and Hong Kong.

BTGI had approximately US\$1.3 billion in AUM (including proprietary and third party capital) and more than 100 employees when its Partners signed a contract to acquire us (then Banco UBS Pactual S.A.) and its subsidiaries on May 11, 2009. The transaction represented the return of many members of our Senior Management Team to the bank, and reunited this team with many of their former partners who had remained at the bank throughout the period following the sale to UBS AG. The transaction closed in September 2009, creating the group now known as BTG Pactual.

In December 2010, we, together with BTGI, issued US\$1.8 billion in capital to a consortium of prestigious international investors and certain senior Partners. This issuance consisted of US\$1.44 billion in new shares issued by us and US\$360.0 million in new BTGI limited partnership interests issued by BTGI, representing an interest of approximately 18.65% in us and BTGI, respectively. This transaction represents a significant step in our strategic development. The consortium brought an impressive group of investors to us, consolidating and expanding our global network and coverage, providing our clients with unique access to opportunities and resources in an increasingly globalized market.

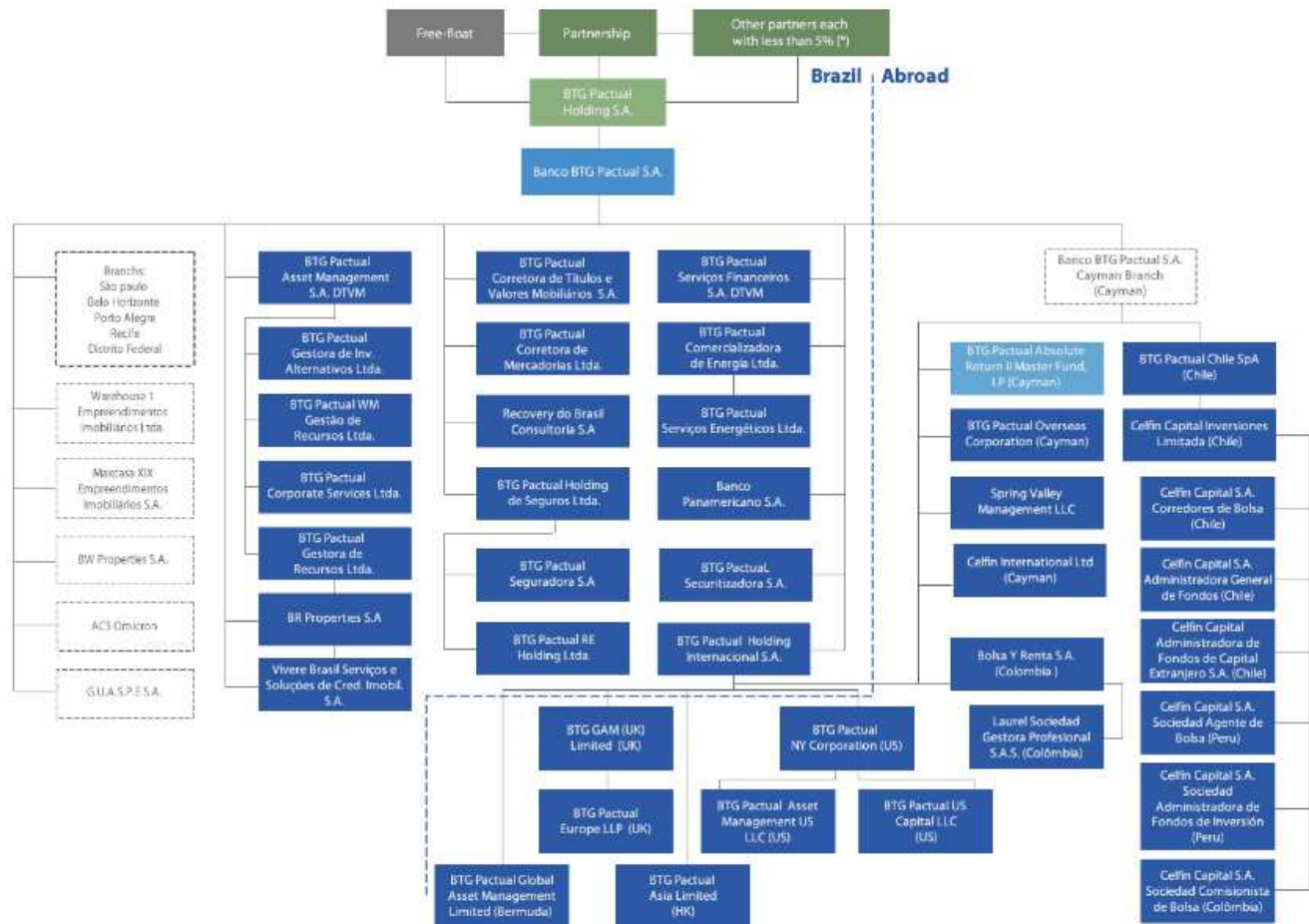
In January 2011, we entered into an agreement to purchase 100% of the shares in Banco PanAmericano S.A. held by Grupo Silvio Santos for R\$450.0 million, representing a 37.64% stake in Banco PanAmericano (composed of 51.00% of its voting shares and 21.97% of its non-voting shares). The transaction was approved by the Central Bank and closed on May 27, 2011.

After registering Banco BTG Pactual S.A. as a foreign company in the Cayman Islands, on June 15, 2011 we completed a merger between Banco BTG Pactual S.A. and BTG Pactual Banking Limited, our former subsidiary. As a result of the merger, BTG Pactual Banking Limited ceased to exist, and Banco BTG Pactual S.A. received a Category “B” Banking License and a Trust License from the Cayman Islands Monetary Authority. The transaction resulted in the conversion of BTG Pactual Banking Limited into our Cayman Islands Branch.

In April 2012, the BTG Pactual Group completed its initial public offering of units on the BM&FBOVESPA and Alternext Amsterdam.

Our Organizational Structure

The diagram below depicts our simplified ownership structure. For information regarding our principal subsidiaries, see "Business—Subsidiaries."



(*) Includes shares from December 2010 Investors, Former Celfin and Former Bolsa Y Renta Shareholders

THE OFFERING

The following is a brief summary of the terms and conditions of the Notes and is subject to and qualified in its entirety by the section “Terms and Conditions of the Notes” in this Offering Memorandum and the Trust Deed relating thereto. Terms which are defined in other sections of the Offering Memorandum or in the Terms and Conditions of the Notes have the same meaning when used in this summary.

Issuer	Banco BTG Pactual S.A., acting through its principal office in Brazil or its Cayman Islands Branch.
Description	Global Medium-Term Note Programme.
Arranger	BTG Pactual US Capital LLC.
Dealers	BTG Pactual US Capital LLC.
	The Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Memorandum to “Permanent Dealers” are to the persons listed above as continuing Dealers and to such additional persons that are appointed as continuing Dealers in respect of the Programme (and whose appointment has not been terminated) and to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	Deutsche Trustee Company Limited.
London Paying Agent	Deutsche Bank AG, London Branch.
Principal Paying Agent	Deutsche Bank AG, London Branch or such other Principal Paying Agent as specified in the relevant Final Terms.
Paying Agents	The London Paying Agent, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas and any other Paying Agent as specified in the relevant Final Terms.
Registrars	Deutsche Bank Trust Company Americas (the “U.S. Registrar”) and Deutsche Bank Luxembourg S.A. (the “European Registrar”), as specified in the relevant Final Terms.
Transfer Agents	Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas and any other Transfer Agent as specified in the relevant Final Terms.
Calculation Agent	Deutsche Bank AG, London Branch.
Final Terms	The issue price, issue date, maturity date, nominal amount, interest rate (if any) applicable to any Notes and any other relevant provisions of such Notes will be agreed between the Issuer and the relevant Dealer(s) at the time of agreement to issue such Notes and will be specified in the relevant Final Terms. The

Final Terms will, for the purposes of each Series and Tranche, complete the Terms and Conditions of the Notes and this Offering Memorandum and must be read in conjunction with this Offering Memorandum.

Currency Subject to compliance with all relevant laws, regulations and directives, any currency as may be agreed between the Issuer and the relevant Dealer(s).

Amount Up to US\$3,000,000,000 (or its equivalent in other currencies calculated as set out herein) aggregate nominal amount of Notes. Under the Dealer Agreement, the nominal amount of Notes which may be issued under the Programme may be increased, subject to the satisfaction of certain conditions set out therein. For the purpose of calculating the aggregate nominal amount of Notes outstanding, Notes issued at a discount shall be treated as having been issued at their accrued original issue discount calculated by reference to the amortization yield formula as specified in the relevant Final Terms or, if none is specified in the relevant Final Terms, their face amount and Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.

Maturities Subject to compliance with all relevant laws, regulations and directives, any maturity from 30 days or such other minimum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body (however called)) or any laws or regulations applicable to the relevant currency or currencies.

Issue Price Notes may be issued at their nominal amount or at a discount to or premium over their nominal amount.

Method of Issue The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant Final Terms.

Form of Notes The Notes may be issued in the form of Bearer Notes or Registered Notes, as specified in the relevant Final Terms.

Subject as provided below, each Series of Bearer Notes will be represented on issue by a Temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Summary—The Offering—Selling Restrictions”), otherwise such Series will be

represented by a permanent Global Note.

Each Series of Registered Notes will be represented on issue by an Unrestricted Global Note and/or a Restricted Global Note.

Clearing Systems	Euroclear and Clearstream, Luxembourg for Bearer Notes, Euroclear, Clearstream, Luxembourg and DTC for Registered Notes.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Temporary Global Note or Global Note representing Bearer Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or the Unrestricted Global Note and/or Restricted Global Note representing Registered Notes may be registered in the name of and deposited with a nominee of a common depositary for Euroclear and Clearstream, Luxembourg or a nominee of DTC. Notes may also be deposited with any other clearing system or may be delivered outside any clearing system <i>provided</i> that the method of such delivery has been agreed in advance by the Issuer, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Denomination	Notes will be in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and specified in the relevant Final Terms, save that (i) unless otherwise permitted by then-current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FMSA”) will have a minimum denomination of £100,000 (or its equivalent in other currencies) and be issued only to a class of professional investors; and (ii) Registered Notes resold pursuant to Rule 144A shall be in denominations of not less than US\$200,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)) or higher integral multiples of US\$1,000.
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes	<p>Floating Rate Notes will bear interest determined separately for each Series as follows:</p> <p>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. or</p> <p>(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.</p>

	Floating Rate Notes may have a maximum interest rate, a minimum interest rate or both.
Zero Coupon Notes	Zero Coupon Notes do not bear interest but will ordinarily be issued at a discount to their nominal amount. The amount payable on early redemption of a Zero Coupon Note will be specified in the relevant Final Terms.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Redemption	The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then-current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FMSA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies) and be issued only to a limited class of professional investors.
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms.
Optional Redemption	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders, and if so, the terms applicable to such redemption.
Status of Notes	All Notes issued under the Programme will be direct, unconditional, unsecured and unsubordinated obligations of the Issuer ranking at all times <i>pari passu</i> and without any preference among themselves.
Negative Pledge	So long as any Notes remain outstanding, the Issuer will not create or permit to subsist any mortgage, pledge, lien,

hypothecation or other security interest, other than Permitted Security, over the whole or any part of its undertaking or assets, present or future, to secure any of its Public External Indebtedness without, at the same time or prior thereto, securing the Notes equally and ratably therewith.

Each of the terms “Public External Indebtedness” and “Permitted Security” is defined in “Terms and Conditions of the Notes—Negative Pledge.”

Early Redemption..... Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Notes—Redemption and Purchase.”

Withholding Tax..... All payments of principal and interest in respect of the Notes will be made free and clear of withholding or deduction for or on account of taxes of Brazil or the Cayman Islands or any other jurisdiction from or through which payments under the Notes are made, unless such withholding or deduction is required by law and subject to customary exceptions (including the ICMA standard EU exception), all as described in “Terms and Conditions of the Notes—Taxation.”

Governing Law The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law.

Ratings..... The rating of certain series of Notes to be issued under the Programme may be specified in the applicable Final Terms.

Listing..... Application has been made for the Notes issued under the Programme to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF market. However, Notes may be issued under the Programme which will not be listed on the Official List of the Luxembourg Stock Exchange or trade on the Euro MTF Market. The relevant Final Terms will specify whether or not Notes of the relevant Series will be listed on the Official List of the Luxembourg Stock Exchange or on any other stock exchange and/or markets.

Selling Restrictions United States, United Kingdom, the European Economic Area, the Cayman Islands and Brazil. See “Subscription and Sale.”

Each Series of Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982, or TEFRA, which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

Transfer Restrictions.....	There are restrictions on the transfer of Registered Notes sold pursuant to Rule 144A or in reliance on Regulation S under the Securities Act. See “Transfer Restrictions.”
Tax Considerations.....	For a discussion of certain Brazilian, Cayman Islands, European and United States federal income tax considerations regarding the acquisition, ownership and disposition of the Notes, see “Taxation.”
ERISA Considerations	The Notes should not be acquired by an “employee benefit plan” (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended, or ERISA) that is subject to Title I of ERISA, a “plan” (as defined in Section 4975(e)(1) of the U.S. Internal Revenue Code of 1986, as amended, or the Code) that is subject to Section 4975 of the Code, any non-U.S., governmental or church plan that is not subject to such provisions of ERISA or the Code but is subject to the provisions of any non-U.S. or U.S. federal, state or local law that is substantially similar to the Title I of ERISA or Section 4975 of the Code (“Similar Law”), or any entity or account whose assets are deemed to be assets of any such employee benefit plan or plan, unless the purchase and holding of the Notes by such plan, entity or account will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code or similar violation of any applicable Similar Law. Each purchaser and/or holder of Notes and each transferee thereof will be deemed to have made certain representations as to its status under ERISA, the Code and Similar Law. Potential purchasers should read the sections entitled “Certain ERISA Considerations” and “Transfer Restrictions.”

SUMMARY FINANCIAL INFORMATION

The tables below set forth certain of our selected financial information as of and for the periods indicated. You should read the information below in conjunction with our financial statements and related notes and the sections “Presentation of Financial and Other Information,” “Selected Financial and Operating Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our balance sheet and income statement as of and for the years ended December 31, 2010, 2011 and 2012 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2010, 2011 and 2012, which are included elsewhere in this Offering Memorandum.

The presentation of our audited income statement is based upon Brazilian GAAP and the standardized framework established by the Central Bank, which our management believes is better suited for the financial disclosure of commercial banks rather than investment banks like us. Our management believes that the additional presentation of an adjusted income statement provides information which is more consistent with the manner in which our publicly traded global investment banking competitors present financial information to the market. Our adjusted income statement is not based on Brazilian GAAP, IFRS, U.S. GAAP or any other generally recognized accounting principles and should not be construed as segment information under IFRS 8 because our management does not rely on this information for decision-making purposes.

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the years ended December 31, 2010, 2011 and 2012. Our adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the years ended December 31, 2010, 2011 and 2012. The classification of the line items in our adjusted income statement, however, is unaudited and materially differs from the classification of the corresponding line items in our income statement. See “Presentation of Financial and Other Information—Our Unaudited Adjusted Income Statement.”

We have translated some of the *real* amounts included in this Offering Memorandum into U.S. dollars. You should not construe these translations as representations that the amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated the *real* amounts using a rate of R\$2.0435 to US\$1.00, the U.S. dollar selling rate as of December 31, 2012, published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. See “Exchange Rates.”

Selected Balance Sheet (Brazilian GAAP – audited)

	As of December 31,			
	2010	2011	2012	2012
	(in R\$ millions)			(in US\$ millions)
Assets				
Cash at banks	1,522.8	517.3	552.2	270.2
Interbank investments	25,209.3	19,583.0	23,968.9	11,729.3
Securities and derivative financial instruments.....	36,061.8	42,893.9	74,202.7	36,311.6
Interbank transactions	134.1	876.7	475.0	232.4
Loans	3,701.7	4,665.2	7,268.6	3,556.9
Other receivables				
Securities trading and brokerage	1,989.5	4,403.8	3,885.6	1,901.5
Other receivables	3,852.0	7,641.7	9,430.9	4,615.1
Other assets	42.5	25.1	35.5	17.4
Permanent assets	393.2	1,405.3	3,496.8	1,711.2
Total assets	72,906.9	82,012.0	123,316.3	60,345.6
Liabilities and Shareholders' equity				
Deposits	10,573.5	14,211.1	14,624.0	7,156.4
Open market funding	41,188.9	39,061.0	52,650.7	25,764.9
Funds from securities issued and accepted.....	1,305.5	3,774.6	8,480.1	4,149.8
Interbank transactions	–	–	0.3	0.1
Loans and onlending	155.3	919.7	1,904.7	932.1
Derivative financial instruments	2,165.7	2,953.8	8,063.7	3,946.0
Securities trading and brokerage	9,542.6	7,930.0	14,575.6	7,132.7
Subordinated debts.....	–	4,158.3	6,246.1	3,056.6
Other liabilities	2,348.5	2,419.9	6,469.6	3,165.9
Deferred income	24.3	31.5	111.9	54.8
Non-controlling interest	–	212.2	88.1	43.1
Shareholders' equity	5,602.6	6,339.8	10,101.5	4,943.2
Total liabilities and shareholders' equity	72,906.9	82,012.0	123,316.3	60,345.6

Income Statements (Brazilian GAAP – audited)

	For the year ended December 31,			
	2010	2011	2012	2012
	(in R\$ millions)		(in US\$ millions)	
Financial income	3,575.2	6,050.1	8,582.9	4,200.1
Loans	327.2	945.6	1,333.6	652.6
Securities	2,698.3	4,589.1	6,773.2	3,314.5
Derivative financial instruments	480.9	225.0	296.4	145.0
Foreign exchange	68.8	249.3	116.5	57.0
Mandatory investments	–	41.1	63.2	30.9
Financial expenses	(2,428.5)	(4,549.6)	(5,277.3)	(2,582.5)
Funding operations	(2,458.9)	(4,002.0)	(4,227.7)	(2,068.9)
Borrowing and onlending	37.4	(517.6)	(581.3)	(284.5)
Allowance for loan losses and other receivables	(7.0)	(30.0)	(468.3)	(229.2)
Net financial income	1,146.7	1,500.4	3,305.6	1,617.6
Other operating income (expenses)	275.6	174.3	454.4	222.4
Income from services rendered	803.0	1,107.6	2,219.2	1,086.0
Personnel expenses	(227.7)	(359.7)	(605.7)	(296.4)
Other administrative expenses	(255.2)	(355.5)	(677.9)	(331.7)
Tax charges	(188.3)	(286.0)	(283.9)	(138.9)
Equity in the earnings of associates and jointly controlled entities	–	(3.5)	245.8	120.3
Other operating income	173.6	158.1	109.0	53.3
Other operating expenses	(29.8)	(86.6)	(552.1)	(270.2)
Operating income	1,422.3	1,674.9	3,760.0	1,840.0
Non-operating income (expense)	(0.4)	9.2	(12.0)	(5.9)
Income before taxation and profit sharing	1,421.9	1,684.1	3,748.0	1,834.1
Income tax and social contribution	(381.6)	199.2	(727.5)	(356.0)
Provision for income tax	(69.2)	(116.6)	(607.5)	(297.3)
Provision for social contribution	(39.7)	(54.6)	(285.7)	(139.8)
Deferred tax assets	(272.7)	370.4	165.7	81.1
Statutory profit sharing	(229.4)	(401.2)	(938.2)	(459.1)
Non-controlling interest	–	(5.0)	(21.1)	(10.3)
Net income	810.9	1,477.1	2,061.2	1,008.7

Adjusted Income Statement (Unaudited)

	For the year ended December 31,		
	2010	2011	2012
	(Unaudited - in R\$ millions)		
Investment banking.....	344.0	338.3	448.0
Corporate lending	251.1	366.5	563.6
Sales and trading.....	637.8	999.9	1,516.6
Asset management	298.4	443.2	1,190.2
Wealth management	103.5	144.5	201.7
PanAmericano.....	0.0	(52.0)	(244.5)
Principal investments	201.6	(111.2)	1,356.9
Interest and other	147.5	518.1	587.2
Total revenues, net of direct expenses allocation.....	1,983.8	2,647.1	5,619.8
Bonus	(232.0)	(479.6)	(1,168.6)
Retention expenses	(53.3)	(32.5)	(5.9)
Salaries and benefits	(159.8)	(213.2)	(326.0)
Administrative and others	(207.9)	(293.1)	(537.1)
Goodwill amortization	(8.4)	(31.2)	(467.4)
Tax charges, other than income tax.....	(129.5)	(177.0)	(241.4)
Total operating expenses	(791.0)	(1,226.7)	(2,746.4)
Income before taxes	1,192.8	1,420.4	2,873.4
Income tax and social contribution revenue (expense)	(381.9)	56.6	(812.2)
Net income	810.9	1,477.0	2,061.2

RISK FACTORS

Investing in the Notes involves a high degree of risk. You should carefully consider all of the information set forth in this Offering Memorandum, including the risks described below, before making an investment decision. If any of the following risks actually occurs, we will be adversely affected and you could lose all or part of your investment. The risks described below are those that we currently believe may adversely affect us. Additional risks and factors not currently known to us, or those that we currently deem to be immaterial, may also adversely affect us.

For the purposes of this section, when we state that a risk, uncertainty or problem may, could or will have an “adverse effect on us” or “will adversely affect us,” we mean that the risk, uncertainty or problem could have an adverse effect on our business, financial condition, results of operations, cash flow, liquidity and/or prospects and/or the trading price of the Notes, except as otherwise indicated.

Risks Relating to Our Business and Industry

We may incur significant losses from our trading and investment activities due to market fluctuations and volatility.

We maintain large trading and investment positions in the fixed income, currency, commodity and equity markets – both in Brazil and elsewhere, including in Europe. To the extent that we have long positions in any of our assets in any of those markets, a downturn in those markets could result in losses from a decline in the value of those long positions. Conversely, to the extent that we have short positions in any of those markets, an upturn in those markets could expose us to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market. We may from time to time have a trading strategy consisting of holding a long position in one asset and a short position in another, from which we expect to earn revenues based on changes in the relative value of the two assets. Many of our hedging strategies are based on trading patterns and correlations. If, however, the relative value of the two assets changes in a direction or manner that we did not anticipate or against which we are not hedged, we may realize a loss in those paired positions. Accordingly, our hedging strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. Unexpected market developments could impact our hedging strategies in the future. In addition, we maintain substantial trading and investment positions that can be adversely affected by the level of volatility in the financial markets (i.e., the degree to which trading prices fluctuate over a particular period, in a particular market) regardless of market levels.

We depend on our Senior Management Team and the departure of any member of this team could adversely affect our ability to execute our business strategies and investment policies and continue to grow.

We are dependent on our Senior Management Team (including André Santos Esteves) for the development and the execution of our business strategies and investment policies, including the management and operation of our businesses. Our future success depends to a significant extent on the continued service of our Senior Management Team. We also rely on the network of business contacts and the track records of these individuals.

Any member of our Senior Management Team may leave us to establish or work in businesses that compete with ours. In addition, if any member of our Senior Management Team joins an existing competitor or forms a competing firm, some of our clients could choose to use the services of that competitor. There is no guarantee that the compensation arrangements and non-competition agreements we have entered into with our Senior Management Team are sufficiently broad or effective to prevent them from resigning in order to join or establish a competitor or that the non-competition agreements would be upheld in a court of law if we were to seek to enforce our rights thereunder. See “Our Partnership—Partner Non-Competition Agreements.” We also do not maintain key man life insurance for any member of our Senior Management Team. In addition, the Central Bank recently issued Resolution 3,921, which regulates and imposes limits on the remuneration of directors of financial institutions.

Our ability to retain our professionals is critical to our success and our ability to grow and continue to compete effectively may depend on our ability to attract additional Partners and key professionals.

Our most important asset is our people, and our continued success (including our ability to compete effectively in our businesses) is highly dependent upon the efforts of all of our Partners (and, most importantly, our Senior Management Team). As a result, our growth and future success depends to a substantial degree on our ability to retain and motivate our Partners and other key professionals and to strategically recruit, retain and motivate new talent, including new Partners and key professionals. However, we may not be successful in our efforts to recruit, retain and motivate the required personnel as the market for qualified investment professionals is extremely competitive. In addition, since January 1, 2012, financial institutions and other institutions authorized to operate by the Central Bank are required to comply with certain rules adopted by the Central Bank regarding the compensation of its directors. Our ability to attract, retain and motivate such personnel is dependent on our ability to offer highly attractive incentive opportunities. The incentives that we provide or offer to such personnel may not be effective to attract, retain and motivate such personnel.

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

We have committed substantial amounts of capital to our businesses such as arbitrage, market-making, underwriting, lending and other trading and principal activities and may continue to do so in the future. These types of businesses often require us to take large positions in the securities of a particular issuer or issuers in a particular industry, country or region. Moreover, the trend in all major capital markets is towards larger and more frequent commitments of capital in many of these activities. Holding large and concentrated positions in any particular issuer may expose us to large losses that could adversely affect us.

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 that may adversely affect us.

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. For example, we enter into derivatives transactions to protect us against decreases in the value of the *real* (or any other currency) or in interest rates and the *real* (or any other currency) 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 adversely affect us. 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 certain activities, such as lending or securities trading, at the levels we currently anticipate, and may also adversely affect our ability to continue to pursue our growth strategies.

Our investment banking revenues may decline in adverse market or economic conditions.

Unfavorable financial or economic conditions, both in Brazil and elsewhere, would likely reduce the number and size of transactions in which we provide underwriting, mergers and acquisitions advisory and other services. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities; outbreaks of hostilities or other geopolitical instability; corporate, political or other scandals that reduce investor confidence in capital markets; or a combination of these or other factors.

Our investment banking revenues in the form of financial advisory and underwriting fees, are directly related to the number and size of the transactions in which we participate and would therefore be

adversely affected by a sustained market downturn – even if the market downturn was primarily outside of Brazil. In particular, our results of operations would be adversely affected by a significant reduction in the number or size of offerings which we underwrite.

Our investment banking advisory assignments do not necessarily lead to subsequent assignments.

Our clients generally retain us on a non-exclusive, short-term, assignment-by-assignment basis in connection with specific investment banking transactions or projects, rather than under exclusive long-term contracts. This is particularly true with respect to mandates to sell all or a significant portion of a client's business. Since these transactions and engagements do not necessarily lead to subsequent assignments, we must constantly seek out new engagements, mainly when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in the subsequent or any other period. In addition, when an engagement is terminated, whether due to the cancellation of a transaction as a result of market conditions or otherwise, we may earn limited or no fees and may not be able to recuperate the costs that we incurred prior to such termination.

Our asset management and wealth management business units may be affected by the poor investment performance of our investment products.

Poor investment returns in our asset management and wealth management business units due to underperformance (relative to our competitors or to benchmarks) by funds or accounts that we manage or investment products that we design or sell, affects our ability to retain existing assets and to attract new clients or additional assets from existing clients. This could adversely affect the management and performance fees that we earn on assets under management.

We may generate lower revenues from asset and wealth management fees in a market downturn.

A market downturn could lead to a decline in the volume of transactions that we execute for our clients and, therefore, the revenues we receive from our asset and wealth management operations could decline. In addition, a market downturn may increase redemptions from clients migrating assets to more traditional and less risky classes of assets or reduce the value of clients' portfolios. Because the fees that we charge for managing our clients' portfolios are in many cases based on the value of those portfolios, any of these factors could reduce the revenue we receive from our asset and wealth management operations.

We are seeking to expand our merchant banking and real estate investments but we may not be able to successfully execute these investments or realize gains from these investments.

We are seeking to expand our portfolio of merchant banking and real estate investments by making equity investments directly in, or setting up private equity and similar funds to invest in, various companies and assets, including companies operating in the Brazilian real economy, infrastructure and real estate sectors. BTGI is the vehicle for many of the principal investments of the BTG Pactual Group. However, we also make certain of these principal investments and serve as the asset manager for our private equity, infrastructure and real estate activities. Our ability to increase merchant banking investments and real estate activities is subject to a number of uncertainties, including adverse market or economic conditions, our ability to raise third party funds, competition from other investors, and the ability to identify opportunities and negotiate terms with counterparties. In addition, less public information exists about privately held companies, and we will be required to rely on the ability of our investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to obtain all material information about these companies, we may not be able to make a fully informed investment decision, and we may lose our money or the money of our third-party investors on such investments. It takes a substantial period of time to identify, negotiate and consummate attractive merchant banking opportunities and to successfully identify and implement growth and managerial strategies for our portfolio companies. These factors could affect our investment returns and the performance fees we earn from third party investors.

We intend to acquire control, joint control or minority positions in medium to large companies, and some of them may require changes in their management or business model. We may have difficulties in identifying attractive acquisition targets, or we may be unable to acquire desired businesses or assets on economically acceptable terms. Overleveraged, distressed, underperforming or small regional or family-owned businesses will also be considered. Such businesses will be subject to increased exposure to adverse economic factors such as a significant rise in local interest rates, a severe downturn in the relevant country's economy or deterioration in the condition of such portfolio company or its industry. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors.

We expect the majority of our merchant banking and real estate investments to be in Brazil, but may expand these activities to other countries, particularly following our recent acquisitions of Celfin and Bolsa y Renta. We may be unable to replicate our previous success in these areas in Brazil in other countries where we have less experience and a less extensive network of business contacts.

Because most of our merchant banking and real estate investments may be in securities that are not publicly traded, the disposition process may take several years and the values realized may be unfavorable. In certain market environments, such as times of market volatility or uncertainty, overall market liquidity may decline and we may be unable to dispose of such securities, or we may have to sell assets at depressed prices, which could adversely affect us. Our ability to sell securities may be impaired by other market participants seeking to sell similar assets into the market at the same time. Accordingly, we may not be able to realize gains from our merchant banking investments or receive performance fees from the private equity infrastructure and real estate funds we manage and, consequently, we could be adversely affected. In addition, any gains that we do realize on the disposition of any equity interest may not be sufficient to offset any other losses we experience.

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 2008, resulting in a credit and liquidity crisis that began to ease following the second quarter of 2009. A number of major financial institutions, including some of the largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, experienced significant difficulties. In particular, banks in many markets faced decreased liquidity or a complete lack of liquidity, rapid deterioration of financial assets on 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 trading counterparties in various agreements and contracts in the financial services industry, as well as brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. If significant financial counterparties continue to experience liquidity problems or the financial services industry in general is unable to fully recover from the effects of the crisis, it could have an adverse effect on us.

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 non-performing loans, impaired our loans and other financial assets and resulted in decreased demand for borrowings in general. In addition, some of our counterparties may also suffer losses as a result of the debt crisis in Europe. In addition, European financial markets have experienced volatility and have been adversely affected by concerns about rising government debt levels, credit rating downgrades, and possible default on or restructuring of government debt. These events have caused bond yield spreads (the cost of borrowing debt in the capital markets) and credit default spreads (the cost of purchasing credit protection) to increase, most notably in relation to euro zone countries. The governments of several member countries of the European Union ("EU") have experienced large public budget deficits, which have adversely affected the sovereign debt issued by those countries and may ultimately lead to declines in the value of the euro. Austerity program implemented to address these concerns may lead to potential instability for these countries, further impacting European and global markets. It is possible that countries that have already adopted the euro could abandon the euro and return to a national currency, or that the euro will cease to exist as a single currency in its current form, or both. The exit of any country out of the EU or the abandonment by any

country of the euro would likely have an extremely destabilizing effect on all euro zone countries and their economies and negatively affect the global economy as a whole. Such events could negatively affect our business opportunities in Europe and increase portfolio losses and other risks. Additional disruption and volatility in the global financial markets could have further negative effects on the 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 us.

We are exposed to certain risks that are particular to emerging and other markets.

In conducting our businesses in Brazil, as well as other emerging markets, we are subject to political, economic, legal, operational and other risks that are inherent to operating in these countries. These risks range from difficulties in settling transactions in emerging markets due to possible nationalization, expropriation, price controls and other restrictive governmental actions. We also face the risk that exchange controls or similar restrictions imposed by foreign governmental authorities may restrict our ability to convert local currency received or held by us in their countries into U.S. dollars or other currencies, or to take those dollars or other currencies out of those countries.

Changes in base interest rates by the Central Bank could adversely affect us.

A significant portion of our business is conducted in Brazil, where the Central Bank's Monetary Policy Committee (*Comitê de Política Monetária*), or COPOM, establishes the target base interest rate for the Brazilian banking system, and uses changes in this rate as an instrument of monetary policy. The base interest rate is the benchmark interest rate payable to holders of certain securities issued by the Brazilian government and traded in the Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*), or SELIC. In recent years, the base interest rate, or the SELIC rate, has fluctuated, reaching approximately 45% per annum in March 1999 and falling to 15.25% per annum in January 2001. Since 2001, the Central Bank has frequently adjusted the SELIC rate, with several increases made in response to economic uncertainties. In 2006, the Central Bank gradually reduced the SELIC rate, which reached 11.25% as of December 31, 2007. Largely in response to accelerating economic activity, the COPOM began raising the target SELIC rate again and in September 2008, the SELIC rate was 13.75%. However, as a response to the 2008 global financial crisis, the COPOM lowered the target SELIC rate in 2009 and, as of December 31, 2009, the SELIC rate was 8.75%. Following the improvement in economic conditions in Brazil during 2010, the COPOM increased the target SELIC rate and, as of December 31, 2010, the SELIC rate was 10.75%. In 2011, the COPOM continued to increase the SELIC rate, which reached 11.0% as of December 31, 2011. During 2012, COPOM reversed the recent increases to the SELIC rate, and as of December 31, 2012, the SELIC rate reached 7.25%.

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

Our ability to expand internationally will depend on our ability to compete successfully with financial institutions overseas.

We believe that there are attractive opportunities for selective expansion outside Brazil, as evidenced by our recent acquisitions of Celfin and Bolsa y Renta. In order to take advantage of these opportunities, we will have to compete successfully with financial institutions and asset and wealth managers based in important non-Brazilian markets, particularly in Latin America, the United States, Europe and Asia. Some of these institutions are larger, better capitalized and have a stronger local presence and a longer operating history in these markets than we do. We cannot assure you that our strategy of expanding internationally will be successful.

We may not be able to successfully execute strategic acquisitions or realize expected benefits from acquisitions.

We have engaged in a number of mergers and acquisitions in the past and may make further acquisitions in the future as part of our growth strategy in the Brazilian financial services industry. Recent transactions include our May 2011 acquisition of a co-controlling interest in Banco PanAmericano, our recent acquisitions of WTorre Properties S.A., BFRE, Celfin and Bolsa y Renta.

We may have difficulties in identifying attractive acquisition targets or we may be unable to acquire desired businesses or assets on economically acceptable terms. In addition, the acquisitions we make may expose us to risks of unknown obligations or contingencies of the acquired companies or assets incurred prior to their acquisition. The due diligence we perform to evaluate the legal and financial condition of the companies to be acquired, as well as any contractual guarantees or indemnities we receive from the sellers of the target companies or businesses, may be insufficient to protect or indemnify us for any contingencies that may surface. Any significant contingencies arising from acquisitions may harm our activities and results. In addition, we may acquire companies that are not subject to independent external audit, which may increase the risks relating to our acquisitions.

In addition, we could be adversely affected if we fail to successfully integrate the operations of our acquired companies with our existing operations and thus do not realize the benefits we hope to achieve from the integration of our acquisitions. For example, in the case of Celfin and Bolsa y Renta, the success of such acquisitions will depend, among other factors, on our ability to retain their respective existing senior and middle management teams and to successfully expand their respective current business lines to include the full range of financial services and products that we currently offer in Brazil. As a result, we may fail to successfully integrate either or both of Celfin's and Bolsa y Renta's operations with our operations or achieve the expected cost savings and revenue generation arising from such integration in the time frame we anticipate or at all. Generally, our inability to realize the benefit of any acquisition may be due to a variety of factors, including our inability to implement our firm's culture at the companies we acquire, to integrate our respective back office operations with those of the companies we acquire, or to carry out anticipated headcount reductions. It is possible that any acquisition could result in the loss of key employees, the disruption of either our or any target's ongoing business and inconsistencies in standards, controls, procedures and policies. Moreover, the success of any acquisition will at least in part be subject to a number of economic and other factors that are beyond our control.

We face enhanced risks as new business initiatives lead us to transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.

Strategic acquisitions and international expansion may bring us into contact, directly or indirectly, with individuals and entities that are not within our traditional client and counterparty base and expose us to new asset classes and new markets. Such activities may expose us to new and enhanced risks, including risks associated with dealing with governmental entities, reputational concerns arising from dealing with less sophisticated counterparties and investors or in connection with the manner in which these assets are being operated or held, greater regulatory scrutiny of these activities, and increased credit-related, sovereign and operational risks.

The financial services industry is intensely competitive.

The financial services industry is intensely competitive with significant participants that are local entities as well as local offices or units of major international securities firms and we expect it to remain so. We compete on the basis of a number of factors, including transaction execution, products and services, innovation, reputation and price. We have experienced intense price competition in some of our businesses in recent years, such as underwriting fees in equity offerings. We believe we may experience pricing pressures in these and other areas in the future as some of our competitors may seek to obtain market share by reducing prices. Because of the risk of increased competition, we cannot assure you that we will be able to successfully execute our investment focus to create value for our unit holders or continue the pace of growth or profitability that we have experienced historically.

Specifically in relation to Brazil and certain other key Latin American markets, their attractiveness appears to be increasing and this is likely to result in more competition. Depending on the segment, our competitors may be substantially larger and have considerably greater financial, technical and marketing resources than we do. We already face significant competition in all of our principal areas of operation from other large Brazilian and international banks, both public and private. In recent years, the presence of foreign banks in Brazil and certain other key Latin American markets has grown and competition in the banking sectors and in markets for specific products has increased. We cannot assure you that we will be able to grow or maintain our market share.

We face increased competition due to a trend toward consolidation.

The scale of our competitors has increased in recent years as a result of substantial consolidation among companies in the investment banking industry. In addition, both in Brazil and elsewhere, a number of large commercial banks and other broad-based financial services firms have established or acquired financial advisory practices and broker-dealers or have merged with other financial institutions and/or asset wealth managers. These firms have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset and wealth management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking with commercial banking, insurance and other financial services revenues in an effort to gain market share, which could result in pricing pressure in our businesses, among others. In particular, the ability to provide financing as well as advisory services has become an important advantage for some of our larger competitors. An increase in competitive conditions may also adversely affect us as a result of, among other factors, difficulties in trying to increase our client base and expand our operations, decreases in our profit margins on our activities and increasing competitiveness for investment opportunities.

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

Our market and credit risk management techniques and strategies, 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 clients believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits. Other risk management methods depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible by us. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management.”

Although we regularly review our credit exposure to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect, such as fraud. We may also fail to receive full information with respect to the trading risks of counterparties. In addition, in cases where we have extended credit against collateral, we may find that we are under secured, for example, as a result of sudden declines in market values that reduce the value of collateral.

Past performance may not be indicative of our future results.

We have included significant information in this Offering Memorandum relating to our past financial performance and that of our affiliates. In considering the performance information contained herein, you should bear in mind that past performance is not necessarily indicative of future results, and

that there can be no assurance that we will achieve comparable results. Future conditions may require actions that differ from those contemplated at this time. For example, from December 2006 through September 2009, Banco BTG Pactual was owned by UBS AG, and managed in accordance with the policies and management practices of UBS AG, which materially differs from our current managing model. There may be differences between investors' expectations and actual results because events and circumstances frequently do not occur as expected, and those differences may be material and adverse. In addition, general economic conditions, which are not predictable, can also have a material adverse impact on the reliability of management's projections. We may use the proceeds of our initial public offering and any offering of Notes at a slower or faster rate than we have historically been able to deploy capital, which may negatively affect our ability to create long-term value for our investors. Such different rates of using funds are another reason we may not be able to achieve similar returns to the track record described in this Offering Memorandum.

Additionally, reorganizing our business from a privately held group to a publicly traded group may result in increased administrative, tax and regulatory scrutiny, costs and burdens that are not reflected in the financial statements contained in this Offering Memorandum, which could adversely affect our results of operations. In addition, as a publicly traded group, we will implement additional regulatory and administrative procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. The costs of implementing and complying with these procedures and processes may be significant.

Our adjusted income statement presented in this Offering Memorandum was not prepared in accordance with Brazilian GAAP or IFRS, is not indicative of our results of operations and should not be considered in isolation or as an alternative to the financial statements included in this Offering Memorandum.

In addition to our income statement derived from our financial statements, we have included in this Offering Memorandum our adjusted income statement and a discussion of such adjusted income statement. The classification of the line items in our adjusted income statement is unaudited and materially differs from the classification of the corresponding line items in our income statement. See "Presentation of Financial and Other Information—Financial Statements." As a result, our adjusted income statement (i) was not prepared in accordance with Brazilian GAAP nor IFRS, (ii) should not be presumed to be operating segments under IFRS because our management does not rely on such information for decision-making purposes, (iii) contains data about our business, operating and financial results that are not directly comparable to the financial statements included in this Offering Memorandum and (iv) is not indicative of our results of operations nor should not be considered in isolation or as an alternative to such financial statements.

An inability to access financing or to sell assets could impair our liquidity.

We depend on continuous access to credit to finance our day-to-day operations. An inability to raise long-term or short-term debt, or to engage in repurchase agreements or securities lending, could have a substantial negative effect on our liquidity. Our access to credit in amounts adequate to finance our activities could be impaired by factors that affect us in particular or the financial services industry in general. For example, lenders could develop a negative perception of our long-term or short-term financial prospects and restrict our access to financing if we incurred large trading losses, if the level of our business activity decreased due to a market downturn, if regulatory authorities took significant action against us or if we discovered that any of our personnel had engaged in unauthorized or illegal activity. Our ability to borrow in the debt markets also could be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views about the prospects for the investment banking, securities or financial services industries generally.

In addition, we depend on inter-bank deposits as a principal source of unsecured short-term funding for our operations. As of December 31, 2012, we had R\$627.1 million of indebtedness related to inter-bank deposits. Our liquidity depends to an important degree on our ability to refinance these borrowings on a continuous basis. Banks that hold inter-bank deposits with us have no obligation to renew these inter-banks deposits when the outstanding deposits mature. If we are unable to refinance these short-term borrowings, we will be adversely affected.

If we are unable to borrow in order to meet our maturing liabilities, we may need to liquidate assets. In certain market environments, such as times of market volatility or uncertainty, overall market liquidity may decline. In a time of reduced liquidity, we may be unable to sell some of our assets, or we may have to sell assets at depressed prices, which could adversely affect us. Our ability to sell our assets may be impaired by other market participants seeking to sell similar assets into the market at the same time.

A reduction in our credit ratings could adversely affect our liquidity and competitive position and increase our borrowing costs.

Our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. These ratings are assigned by rating agencies, which may reduce or withdraw their ratings or place us on “credit watch” with negative implications at any time. Credit ratings are also important to us when competing in certain markets and when seeking to engage in longer-term transactions, including over-the-counter derivatives. A reduction in our credit ratings could increase our borrowing costs and limit our access to the capital markets. This, in turn, could reduce our earnings and adversely affect our liquidity.

We may suffer significant losses from our credit exposures.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties include our trading counterparties, clients, clearing agents, exchanges, clearing houses and other financial intermediaries as well as issuers whose securities we hold. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from holding securities of third parties; entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments to us; executing securities, futures, currency or commodity trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries; and extending credit to our clients through bridge or margin loans or other arrangements.

In recent years, we have significantly expanded our swaps and other derivatives businesses and placed a greater emphasis on providing credit and liquidity to our clients. Additionally, as part of our brokerage business, we finance our client positions, and we could be held responsible for the defaults or misconduct of our clients. We are also experiencing pressure from corporate clients that require credit commitments in connection with investment banking and other assignments. As a result, our credit exposures have increased in both amount and duration. The outstanding balance of our broader credit portfolio, which consists mainly of loans, receivables, advances in foreign exchange contracts, securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), increased from an average balance of R\$2.1 billion in 2009 to an average balance of R\$26.0 billion in 2012. In addition, as competition in the financial services industry has increased, we have experienced pressure to assume longer-term credit risk, extend credit against less liquid collateral and price more aggressively the credit risks that we take.

The ability of borrowers to meet their obligations on schedule is directly related to their operational and financial performance. An economic crisis such as the world financial crisis in 2008 and the European sovereign debt crisis in 2010 through 2012, or low economic performance, may also increase the number of defaulting borrowers. The increase in the number of defaulting borrowers within our credit portfolio may increase the losses resulting from loans and adversely affect us.

Defaults by other financial institutions could adversely affect financial markets generally and us specifically.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default by, one institution could lead to significant liquidity problems or losses in, or defaults by, other institutions. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis.

We may experience increases in our level of past due loans as our portfolio of credit products and derivatives increases.

We intend to grow our portfolio of credit products and derivatives. Growth of this portfolio may initially reduce our ratio of past due loans to total loans until growth slows or the portfolio becomes more seasoned. When the portfolio is seasoned, we may experience an increase in the absolute level of past due loans. 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 our intention to increase our portfolio, our historic loan loss experience may not be indicative of our future loan loss experience.

We are subject to several operating risks inherent to our businesses.

Our businesses are highly dependent on our ability to process and monitor efficiently and accurately, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as the information technology services we provide to clients, often must adhere to jurisdiction and client-specific guidelines, as well as legal, tax and regulatory standards. Our management of operational, legal, tax and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Despite the resiliency plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may include a disruption involving electrical, communications or computer systems, internet, transportation, security systems or other services used by us or third parties with which we conduct business. If any of these infrastructure devices do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. The inability of these devices to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. Losses can also result from inadequate personnel, inadequate or failed internal control processes and systems, information systems failures or external events that interrupt normal business operations such as terrorist acts, natural disasters and sabotage. We face the risk that the design of our controls and procedures for mitigating operational risk proves to be inadequate or is circumvented.

Industry consolidation, whether among market participants or financial intermediaries, increases the risk of operational failure as disparate complex systems need to be integrated, often on an accelerated basis. Furthermore, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses increases the risk that an operational failure at one institution may cause an industry-wide operational failure that could adversely affect us.

Legal and regulatory risks are inherent and substantial in our businesses.

Substantial legal liability or a significant regulatory action against us could cause significant harm to our reputation or otherwise adversely affect us, which in turn could seriously harm our business prospects. We face significant legal risks in our businesses and the volume and amount of damages claimed in litigation against financial intermediaries are increasing. These risks include potential liability under securities and related laws for materially false or misleading statements made in connection with securities and other transactions, potential liability for the “fairness opinions” and other advice we provide to participants in corporate transactions and disputes over the terms and conditions of complex trading arrangements. We also face the possibility that counterparties in complex or risky trading transactions will claim that we failed to disclose the risks or that they were not authorized or permitted to enter into these transactions with us and that their obligations to us are not enforceable. We are increasingly exposed to claims for recommending investments that can be considered inconsistent with a client’s investment objectives or engaging in unauthorized or excessive trading. During a prolonged market downturn, we would expect these types of claims to increase. See “Management Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Legal and Regulatory Risk.” For a discussion of other legal proceedings in which we are involved, see “Business—Legal Matters.”

Extensive regulation of our businesses may limit our activities and negatively affect us.

The financial services industry is subject to extensive regulation, both in Brazil and elsewhere and, in many jurisdictions, increasing scrutiny from tax authorities and tax policy makers. See “Management Discussion and Analysis of Financial Condition and Results of Operations—Risk Management.” We are subject to regulation by governmental and self-regulatory organizations in all jurisdictions in which we operate. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect clients and other third parties and are not designed to protect our investors. Consequently, these regulations often serve to limit our activities, including through net capital requirements, client protection and market conduct requirements. We face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or prohibited from engaging in some of our business activities. In addition, recent market disruptions have led to numerous proposals for significant additional regulation of the financial services industry. These regulations could further limit our business activities, increase compliance costs and, to the extent the regulations strictly control the activities of financial services firms, make it more difficult for us to distinguish ourselves from competitors.

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

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

The Central Bank also must approve certain acts by Brazilian financial institutions.

In addition, some of our subsidiaries are also subject to regulation under U.S. federal and state law and United Kingdom laws, which impose, among other things, minimal standards for different areas of operation, including operational, market, counterparty and other risk assessment, regulatory capital requirements, conduct of business requirements and internal systems and controls with regard to market abuse and insider dealing, among others. Failure to comply with these standards could result in the application of fines or other sanctions, including the suspension or revocation of the licenses of these subsidiaries or their liquidation.

Misconduct by our personnel could harm us and is difficult to detect and deter.

There have been a number of highly publicized cases involving fraud or other misconduct by individuals involved in the financial services industry in recent years and we run the risk that such misconduct could occur and harm our business. Misconduct by individuals working for us could occur in the future. For example, these risks could include binding us to transactions that exceed authorized limits or present unacceptable risks, or hiding from us unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. These risks could also include unauthorized

breaches of the existing regulatory, tax and administrative procedures and processes or of the additional procedures and processes which we will implement for the purpose of addressing the standards and requirements applicable to public companies. Such misconduct could also involve the improper use or disclosure of confidential information, which could result in sanctions and serious reputational or financial harm. Any breach of our clients' confidences as a result of such misconduct may impair our ability to attract and retain clients. It is not always possible to deter such misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases.

Legal restrictions on our clients may reduce the demand for our services.

New laws or regulations or changes in enforcement of existing laws or regulations applicable to our clients may also adversely affect us. For example, changes in antitrust enforcement could affect the level of mergers and acquisitions activity and changes in regulation could restrict the activities of our clients and, therefore, the services we provide to them.

Our inability to successfully implement our strategy relating to, or to realize the intended benefits from, our recent acquisition of a co-controlling interest in Banco PanAmericano or Banco PanAmericano's acquisition of BFRE could have a material adverse effect on us.

There are significant risks associated with our acquisition of a co-controlling interest in Banco PanAmericano, which was consummated on May 27, 2011.

Prior to the announcement of the transaction, Banco PanAmericano disclosed a series of accounting inconsistencies which resulted in losses of approximately R\$4.3 billion. We record the results of operations from Banco PanAmericano using the equity method of accounting, pursuant to which our share of Banco PanAmericano's net income or net losses, as deducted by accumulated loss adjustments relating to previous periods, is recognized in our income statement as equity in the earnings of associates and jointly controlled entities. Banco PanAmericano recorded substantial adjustments to accumulated losses in 2011. We recorded losses of R\$27.2 million and R\$160.3 million in connection with the Banco PanAmericano equity pick-up for 2011 and 2012, respectively. There can be no assurance that Banco PanAmericano will not generate net losses during 2013 or thereafter or that Banco PanAmericano's accumulated loss adjustments will not continue to adversely affect our results of operations relating to our commercial banking activities.

In addition, although a substantial portion of Banco PanAmericano's loan portfolio was sold prior to our acquisition of the co-controlling interest in Banco PanAmericano, and Banco PanAmericano has recorded significant provisions for loan losses, there can be no assurance that it will not suffer future loan losses which exceed the amount of these provisions, which could have a material adverse effect on us.

Furthermore, as co-controlling shareholder of Banco PanAmericano, we may be required under Brazilian law to make additional capital contributions if certain circumstances arise in which Banco PanAmericano is considered by the Central Bank to be undercapitalized. For more information on Brazilian banking regulations, see "Regulatory Overview—The Brazilian Financial System and Banking Regulation." For example, on January 18, 2012, Banco PanAmericano's shareholders approved a capital increase in an amount of up to R\$1.8 billion, with an issue price of R\$6.05 per share. We and CaixaPar committed to exercise preemptive rights for an aggregate amount of R\$1.335 billion, with our share amounting to R\$677.0 million. However, we agreed that, upon the request of TPG-Axon, we would transfer part of our preemptive rights with respect to a total of R\$182.0 million of our R\$677.0 million commitment. TPG-Axon elected to exercise such rights and, on April 17, 2012, subscribed for preferred shares representing, after the capital increase, 12.0% of Banco PanAmericano's preferred shares and 5.55% of its total capital stock, thus reducing our capital contribution to R\$495.4 million. Following such exercise, we maintained our 51.0% equity interest in Banco PanAmericano's common shares, and we and CaixaPar continue to co-control Banco PanAmericano pursuant to the terms of a shareholders agreement which establishes the conditions for our shared control.

It is possible that the initiatives to return Banco PanAmericano to profitability, including through the acquisition of BFRE, may not meet the expected results and that new capital injections at Banco PanAmericano will be required. Any of these factors could have an adverse effect on us.

We co-control Banco PanAmericano with CaixaPar, which may have interests that differ from ours.

We have entered into a shareholder agreement with CaixaPar relating to our co-controlling interest in Banco PanAmericano. Pursuant to the shareholder agreement, various decisions which impact the business of Banco PanAmericano require the agreement of CaixaPar. CaixaPar may have economic interests that differ from ours and may wish to act in a manner which is contrary to our strategy or objectives. If we are unable to obtain the agreement of CaixaPar with respect to decisions that we consider to be necessary, we may be unable to cause Banco PanAmericano to implement business strategies that we believe to be in its best interests.

Risk Factors Relating to Brazil

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

The Brazilian economy has been characterized by the significant involvement of the Brazilian government, which often changes monetary, credit, fiscal and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and effect other policies have involved depreciation of the *real*, controls over remittance of funds abroad, intervention by the Central Bank to affect base interest rates, among other measures. We have no control over and cannot predict what measures or policies the Brazilian government may take in the future. We may be adversely affected by changes in Brazilian government policies, as well as general economic factors, including, without limitation:

- banking regulations;
- growth or downturn of the Brazilian economy;
- the regulatory environment;
- inflation;
- interest rates;
- variations in exchange rates;
- decreases in wages and economic levels;
- increases in unemployment;
- exchange control policies;
- fiscal policy and changes in the tax law;
- liquidity of the domestic financial, capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

We cannot predict what future policies will be adopted by current or future Brazilian governments, or whether these policies will result in adverse consequences to the Brazilian economy or cause an adverse effect on us. In addition, possible political crises may affect the confidence of investors and the public in general, which may result in economic deceleration and adversely affect us.

Exchange rate instability may adversely affect us.

The Brazilian currency has been devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the *real* is generally linked to the rate of inflation in Brazil, depreciation of the *real* occurring over shorter periods of time has resulted in significant variations in the exchange rate between the *real*, the U.S. dollar and other currencies. The *real* appreciated against the U.S. dollar by 20.5% in 2007. In 2008, as a result of the global financial crisis, the *real* depreciated against the U.S. dollar by 24.2%. However, in 2009 and 2010, the *real* appreciated by 33.8% and 3.5%, respectively, against the U.S. dollar. In 2011, the *real* depreciated by 11.9% against the U.S. dollar. The *real*/U.S. dollar exchange rate reported by the Central Bank on December 31, 2011 was R\$1.8758 per U.S. dollar. In 2012, the *real* further depreciated by 8.5% against the U.S. dollar. The *real*/U.S. dollar exchange rate reported by the Central Bank on December 31, 2012 was R\$2.0435 per U.S. dollar. We cannot assure you that the *real* will not continue to appreciate substantially or depreciate against the U.S. dollar in the future. Our costs are principally denominated in *reais*. However, because a substantial portion of our revenues is denominated in U.S. dollars, whereas our reporting currency is the *real*, we may be adversely affected due to fluctuations in the value of the *real* against the U.S. dollar. For example, changes in the relative value of the *real* and the U.S. dollar will result in realized and unrealized foreign exchange gains and losses to the extent that we have assets and liabilities denominated in U.S. dollars or these other currencies. Further, the depreciation of the *real* against the U.S. dollar may create additional inflationary pressures in Brazil, which may negatively affect the Brazilian economy as a whole and cause an adverse effect on us.

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

Brazil has historically experienced high rates of inflation. Inflation and certain actions taken by the Brazilian government to curb it have had negative effects on the Brazilian economy, especially in the period before 1995. Inflation, as measured by the IGP-M, reached 2.57% in 1993. Although Brazilian inflation has substantially decreased since 1994, inflationary pressures still persist. Brazil's inflation rate in 2007 and 2008 reached 7.75% and 9.81%, respectively, but, in 2009, Brazil experienced a deflation rate of 1.72% due to the effects of the financial global crisis in the end of 2008. In 2010 and in 2011, inflation rates in Brazil were 11.32% and 5.10%, respectively, as a result of the economic growth momentum of the Brazilian economy. In 2012, the inflation rate (IGP-M) in Brazil was 7.81%, mainly due to producer price inflationary pressures, with higher contributions from food products, chemical products, petroleum refining and pulp and paper.

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. The COPOM has frequently adjusted the interest rate in situations of economic uncertainty and to achieve objectives under the economic policy of the Brazilian government. Inflation, along with government measures to curb inflation and public speculation about possible future government measures, have had significant negative effects on the Brazilian economy, and contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market, which may have an adverse effect on us.

If Brazil experiences substantial inflation or deflation in the future, we and our ability to comply with our obligations may be adversely affected. Such pressures may also affect our ability to access foreign financial markets and may lead to policies that may adversely affect the Brazilian economy and us. In addition, we may not be able to adjust the prices we charge our clients to offset the impact of inflation on our expenses, leading to an increase in our expenses and a reduction in our net operating margin.

Our clients' and counterparties' ability to make timely payments may be restricted by liquidity constraints in Brazil.

The Brazilian economy has been subject to a number of developments or conditions that have significantly affected the availability of credit. External and internal factors, including the Russian economic crisis of 1998, the Argentine economic crisis of 2001 and elections in Brazil in 2002 have from time to time resulted in significant outflows of funds and reductions in the amount of foreign currency being invested in Brazil, notwithstanding significant increases in interest rates designed to stem capital outflow. Since 2008, the continuation of the economic crisis in Europe, particularly in Greece, Spain, Italy and Portugal has gradually reduced investor confidence globally, as did the earthquake in Japan, the downgrade of the U.S. long-term sovereign credit rating by Standard & Poor's on August 6, 2011 and U.S. fiscal cliff discussions in 2012. These ongoing events could negatively affect our ability and the ability of other Brazilian banks to obtain financing in the global capital markets, as well as weaken the recovery and growth of the Brazilian and/or foreign economies and cause volatility in the Brazilian capital markets. In addition, to control inflation in general, the Brazilian government has maintained a tight monetary policy, with associated high interest rates, and has constrained the growth of credit. The combination of these developments has made it difficult at times for certain companies and financial institutions in Brazil to obtain cash and other liquid assets and has resulted in the failure of a number of weaker financial institutions in Brazil. In addition, concerns as to the stability of some financial institutions have caused significant transfers of deposits from smaller banks to larger banks since the beginning of 1995. No assurance can be given that developments in the Brazilian economy will not adversely affect the ability of certain of our counterparties or direct and indirect clients to make timely payments on their obligations to us or otherwise adversely affect us.

Developments and the perception of risk in other countries, such as the recent developments in the global financial markets, and particularly in emerging market countries, may adversely affect the market price of Brazilian securities, including the Notes.

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to the Brazilian economy and resulted in considerable outflows of funds from Brazil and decreased the amount of foreign investments in Brazil. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries, such as the recent developments in the global financial markets, may have an adverse effect on the market value of securities of Brazilian issuers, including the Notes.

Risk Factors Relating to the Regulatory Environment

Changes in the regulation of operations of Brazilian banks may adversely affect us.

Brazilian banks are subject to extensive and continuous regulatory review by the Brazilian government. Banking regulation is regularly enacted by the Brazilian government as a means of controlling credit availability and reducing or increasing consumption. Certain of these controls are temporary in nature and may vary from time to time in accordance with the Brazilian government's credit policies. We have no control over government regulations, which govern all facets of our operations, including the imposition of:

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

The regulatory structure governing Brazilian banks has frequently evolved. Existing laws and regulations could be amended; the manner in which laws and regulations are enforced or interpreted could change; and new laws or regulations could be adopted. Such changes could adversely affect us.

Changes in regulations regarding reserve and compulsory deposit requirements may adversely affect us.

The Central Bank has periodically changed the amount of reserves that financial institutions in Brazil are required to maintain. For example, as from September 2008, the Central Bank revoked and changed a number of compulsory deposit requirements in an attempt to reduce the impact of the global financial markets crisis, and, considering the gradual recovery from the global financial markets crisis, the Central Bank has been increasing and restating the compulsory deposit requirements. The Central Bank may increase its reserve and compulsory deposit requirements in the future or impose new reserve and compulsory deposit requirements.

We may be adversely affected by changes to compulsory deposit requirements because funds held as compulsory deposits generally do not yield the same return as our other investments and deposits because:

- a portion of our compulsory deposits do not bear interest;
- we are obliged to hold some of our compulsory deposits in Brazilian government securities, which may yield lower interest rates; and
- we must use a portion of the deposits to finance both a federal housing program and the rural sector.

Reserve requirements have been used by the Central Bank to control liquidity as part of monetary policy in the past, and we have no control over their policy. Any increase in the compulsory deposit requirements may reduce our ability to lend funds and to make other investments and, as a result, may adversely affect our business.

Minimum capital adequacy requirements imposed on us following the implementation of the Basel III Accord may negatively impact our results of operations and financial condition.

In June 2004, the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, approved a new framework for risk-based capital adequacy, commonly referred to as the “Basel II Accord.” The Basel II Accord sets out the details for adopting more risk-sensitive minimum capital requirements for financial institutions.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements and fully endorsed previous agreements on the overall design of the capital and liquidity reform package, “the Basel III Accord,” which was endorsed at the Seoul G20 Leaders summit in November 2010. “The Basel III Accord” recommendations aim to improve the ability of financial institutions to withstand shocks to the financial or of other sectors of the economy, to maintain overall financial stability and to promote sustainable economic growth. The Basel Committee’s package of reforms will increase the minimum common equity requirement from 2% to 4.5%. In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand periods of stress, bringing the total common equity requirements to 7%.

In March 2013, the CMN and the Central Bank issued a new regulatory framework for the implementation of the Basel III Accord in Brazil. Accordingly, CMN Resolution No. 4,192, of March 1, 2013, determined, among others, that Brazilian financial institutions must comply with new minimum capital requirements and established new rules for the calculation of the PR, which is the basis for the determination of minimum regulatory capital. See “Regulatory Overview—Capital Adequacy and Leverage.”

Among the changes introduced by this new set of rules, it is important to highlight: (i) the introduction of the concept of quasi-financial institutions (*instituições assemelhadas*); (ii) the necessity of consolidation of financial statements of such *quasi*-financial institutions; (iii) the issuance of new rules for the calculation of the components of the PR (including Principal Capital and Complementary Capital, both of which comprising the so-called Tier I Capital). These changes are to be implemented from October 1, 2013 to January 1, 2022.

The Basel III Accord regulatory capital requirements will be gradually increased by the Central Bank until 2019 and may require us to increase our capital basis, which could negatively impact our results and may make it more difficult for us to maintain the ratios mentioned above. In addition, due to changes in the rules concerning capital adequacy or due to changes in the performance of the Brazilian economy as a whole, we may be unable to meet the minimum capital adequacy requirements required by the Central Bank. We may also be compelled to limit our credit operations, dispose our assets and/or take other measures that may adversely affect us.

If we were deemed an “investment company” required to register as such under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

The Investment Company Act and the rules thereunder contain detailed parameters for the organization and operation of registered investment companies (or companies that should be but are not so registered). Among other things, the Investment Company Act and the rules thereunder applicable to such companies limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. Operation of a complex financial services business within those rules is impracticable. We therefore intend to conduct our operations so that we will not be an investment company required to register as such under the Investment Company Act.

We hold ourselves out as a diversified financial services firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities, a key element in the definition of an investment company under the Investment Company Act. However, there is a risk that some of our equity investment activities, especially if viewed in isolation from our other activities and our related companies, potentially could be considered those of an investment company subject to regulation under the Investment Company Act. As a result, we have elected to take steps to ensure compliance under such laws by limiting the persons and entities that may acquire units. The Notes will be offered pursuant to an exclusion from the definition of investment company as the Notes will be offered and sold in the United States only to prospective investors that are “qualified purchasers” within the meaning given to such term in the Investment Company Act, and outside the United States only in accordance with Rule 903 under the Securities Act. See “Transfer Restrictions.”

The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulation, and we cannot predict the effect of such regulation on our business.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, was signed into law. The Dodd-Frank Act aims to reform various aspects of the U.S. financial markets and covers a broad range of market participants, including broker-dealers and investment advisers. In particular, the Dodd-Frank Act affects our investment adviser in the U.S. because it mandates additional new reporting requirements, including information with respect to positions, use of leverage and counterparty and credit risk exposure. The Dodd-Frank Act also creates the Financial Stability Oversight Council, or the Council, which is charged with monitoring and mitigating systemic risk in the financial industry. As part of this responsibility, the Council would have the authority to subject certain financial firms to additional regulations, which could limit the amount of risk-taking engaged in by certain financial firms. It is not certain what the scope of future rulemaking and interpretive guidance from the SEC, the Financial Industry Regulatory Authority, or FINRA, and other regulatory agencies may be and what impact that will have on our compliance costs, business, operations, and profitability.

In addition, the Dodd-Frank Act gives the SEC discretion to adopt rules regarding the standards of conduct that a broker-dealer employs when providing investment advice to retail customers. The SEC, FINRA and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by U.S.-registered broker-dealers. Our U.S. broker-dealer is required to comply with net capital requirements and if it fails to maintain the required net capital, the SEC could suspend or revoke its registration or FINRA could expel it from membership, which could ultimately lead to its liquidation, or they could impose censures, fines and other sanctions. If the net capital rules are changed or expanded, or if there is an unusually large charge against net capital, then our operations that require capital could be limited. A large operating loss or charge against net capital could have a material adverse effect on our ability to maintain or expand our broker-dealer business in the U.S.

Limits on bank loan interest rates could have a negative effect on our business, financial condition and results of operations.

The Brazilian Federal Constitution historically imposed a 12.0% cap on the interest rates of loans from financial institutions. In 2003, however, such limit was eliminated by the enactment of Constitutional Amendment No. 40. The Brazilian Civil Code and Decree No. 22,626, dated April 7, 1933 (known as the Usury Law), however, continue to provide limitations on interest rates. Law No. 4,595, dated December 31, 1964, which regulates the national financial system, together with several court decisions, has exempted financial institutions from the limits mentioned above. However, changes in Brazilian courts' interpretations, or any new legislation or regulation imposing a ceiling or limiting bank loan interest rates, could have a negative effect on us. In addition, the Brazilian government has recently been pressuring financial institutions to lower the applicable tax rates, which could also have a negative effect on us.

Risk Factors Relating to the Notes

We and the Arranger and Dealer are affiliated companies that are part of the BTG Pactual Group, and once the Arranger and Dealer participates in the bookbuilding process, distortions may occur in the setting of the material terms of the Notes.

Banco BTG Pactual, the issuer in this offering, and BTG Pactual US Capital LLC, the Arranger and Dealer for this Programme, are part of the BTG Pactual Group and are controlled by the same shareholders. The Arranger and Dealer will participate in the setting of the issue price, interest rate and other material terms of the Notes, together with the Manager. This participation in the bookbuilding process may cause distortions in such terms of the Notes or reduce the liquidity of the Notes in the secondary market.

Our controlling shareholders may have interests that differ from your interests as a Noteholder.

André Santos Esteves, our controlling shareholder (i) has an economic interest, directly and indirectly, of approximately 21.54% in our capital stock and (ii) controls, directly or indirectly, approximately 83.00% of our common shares which, subject only to certain limited exceptions (see "Our Partnership—Shareholders Agreements—Partners Brazil Shareholders Agreement"), will allow Mr. Esteves, in his sole discretion, to control our management, direction and policies, including the outcome of any matter submitted to a vote of shareholders. As a result, subject to certain exceptions, Mr. Esteves is and will be able to (i) elect and control the decisions of the majority of our board of directors, (ii) control our management and policies, and (iii) determine without the consent of unit holders the outcome of any corporate transaction or other matter submitted to our shareholders for approval, including mergers, amalgamations, consolidations and the sale of all or substantially all of our assets. As the controlling shareholder of the BTG Pactual Group, Mr. Esteves will also be able to prevent or cause a change in control of the BTG Pactual Group. The interests of our controlling shareholder may not coincide with yours as a holder of Notes. For example, our controlling shareholder may have an interest in undertaking expansions, acquisitions, divestitures, financings and other actions that, in his judgment, could enhance his equity investments, even though those actions might involve risks to you as a holder of the Notes.

The rating of the Notes may be lowered or withdrawn depending on some factors, including the rating agency's assessment of our financial strength.

Any rating assigned to the Notes reflects the rating agency's assessment of our ability to make timely payment of interest on each payment date. Any rating assigned to the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure the investors that any rating assigned to the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in the rating of the Notes will not be an event of default under the Trust Deed. The assigned rating may be raised or lowered depending, among other factors, on the rating agency's assessment of our financial strength. In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms.

Controls and restrictions on foreign currency remittances, or remittances to foreign investors generally, could impede our ability to make payments under the Notes.

The purchase and sale of foreign currency in Brazil is subject to governmental control. The Brazilian economy has experienced balance of payment deficits and shortages in foreign currency reserves to which the Brazilian government has responded by restricting the ability to convert Brazilian currency into foreign currency. Brazilian law provides that whenever a serious imbalance in Brazil's balance of payments exists or is anticipated, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil. For example, in 1989 and early 1990, the Brazilian government restricted fund transfers that were owed to foreign equity investors and held by the Central Bank, in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released. However, similar measures could be taken by the Brazilian government in the future.

Even though the Brazilian foreign exchange market has recently experienced a de-regulation process, the Brazilian government may in the future:

- restrict companies, including financial institutions, such as us, from paying amounts denominated in foreign currencies (such as payments under the Notes); or
- require that any of those payments be made in *reais*.

The likelihood of such restrictions may be determined by the extent of Brazil's foreign currency reserves, the availability of foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, Brazil's policy toward the International Monetary Fund, political constraints to which Brazil may be subject and other factors. To date, the Brazilian government has not imposed any restrictions on payments by Brazilian issuers in respect of debt securities issued in the international capital markets, but we cannot assure you that such restrictions will not be imposed by the Brazilian government.

There is currently no public trading market for the Notes and your ability to sell the Notes is limited.

The Notes are new debt securities, and there is no existing public market for them. Application has been made for the Notes issued under the Programme to be listed on the Official List of the

Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF market, which is not a regulated market within the meaning of the MIFID Directive. However, Notes may be issued under the Programme which will not be listed on the Official List of the Luxembourg Stock Exchange or trade on the Euro MTF Market. We cannot assure you that an active trading market for the Notes will ever develop or be sustained. If an active market for the Notes does not develop or is interrupted, the market price and liquidity of the Notes may be adversely affected. We also cannot assure you as to the liquidity of any markets that may develop for the Notes, the ability of holders of the Notes to sell their Notes, or the price at which holders would be able to sell their Notes. Future trading prices of the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results, our financial condition, the prospects for other companies in the banking industry, and the market for similar securities.

Holders of the Notes may face difficulties in serving process on or enforcing judgments against us and other relevant persons.

We are a corporation organized under the laws of Brazil. Most of our board members, executive officers and independent public accountants reside or are based in Brazil. Most of our assets and those of such other persons are located in Brazil. As a result, it may not be possible for you to effect service of process upon us or such other persons within the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil, if certain conditions are met, you may face greater difficulties in protecting your interests in the case of actions against us, our board of directors or executive officers than would holders of the Notes issued by a U.S. corporation.

Judgments of Brazilian courts enforcing our obligations under the Notes or the trust deed would be expressed in real-equivalent amounts.

If proceedings were brought in Brazil seeking to enforce our obligations under the Notes or the trust deed, any judgment obtained thereunder against us would be expressed in the amount in *reais* equivalent on the date of remittance from Brazil to the relevant non-Brazilian currency denominated amount due and unpaid under such Notes. Accordingly, absent the imposition hereafter of any law, regulation or directive otherwise restricting the exchange of *reais* into, or the remittance from Brazil of, the non-Brazilian currency in which the Notes are denominated dictated by economic, market or other disruptive circumstances, the amount of *reais* made available as a result of such judgment would be applied towards the exchange into, and the remittance from Brazil of, such amount of non-Brazilian currency due and unpaid under the Notes.

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

Under Brazilian law, our obligations under the Notes and the trust deed are subordinated to certain statutory preferences. In the event of our extrajudicial liquidation or bankruptcy, such statutory preferences, such as claims for salaries, wages, social security and other taxes, court fees and expenses, will have preference over any other claims.

We may not be able to obtain necessary governmental authorizations.

The issue of Notes by us, acting through our principal office in Brazil, is subject to certain registrations with and requirements of the Central Bank, namely (i) the registration of the main financial terms under the relevant Electronic Declaratory Registry – Registry of Financial Transactions (*Registro Declaratório Eletrônico – Registro de Operações Financeiras*), or ROF, on the Sisbacen for the issuance of any series of Notes by us, which shall be obtained prior to any such issuance; (ii) the registration of the schedule of payments in connection with any such issuance, which shall be obtained after the entry of the related proceeds into Brazil; and (iii) the 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. We cannot assure you that any such registration with or approval of the Central Bank will be obtainable at a future date.

If we are unable to make payments on the Notes through our Cayman Islands Branch and must make payments from Brazil, we could 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.

Any issue of Notes by us through our Cayman Islands Branch is not subject to approval by or registration with the Central Bank. In the event payment under the Notes issued by our Cayman Islands Branch is made directly from Brazil (whether by reason of a lack of liquidity of our Cayman Islands Branch, acceleration, enforcement or judgment or imposition of any restriction under the laws of the Cayman Islands), a specific Central Bank approval will be required. If we are unable to obtain the required approvals, if needed for the payment of amounts owed by our Cayman Islands 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 assure you that other remittance mechanisms will be available in the future, and, even if they are available in the future, we cannot assure that payment on the Notes would be possible through such mechanism. If we are unable to make payments on the Notes through our Cayman Islands Branch and we are prevented from making the payments from Brazil, we would not be able to make payments on the Notes.

ERISA, the Code and Similar Law may restrict investments by plans in the Notes.

A plan fiduciary considering an investment in the Notes should consider, among other things, whether such an investment is consistent with its fiduciary obligations under ERISA, the Code or any Similar Law, and whether such investment might constitute or give rise to a prohibited transaction under ERISA, the Code or any applicable Similar Law and, if so, whether an exemption from such prohibited transaction rules is available. See “Certain ERISA Considerations.”

USE OF PROCEEDS

The net proceeds of any issue of Notes under the Programme are to be used by us for general corporate purposes unless otherwise specified in the relevant Final Terms.

CAPITALIZATION

The table below presents our capitalization as of December 31, 2012. The information described below is derived from our consolidated financial statements as of December 31, 2012. Save as disclosed in the Offering Memorandum, there has been no material change to our capitalization since December 31, 2012.

You should read this table together with the sections “Presentation of Financial and Other Information,” “Summary Financial Information,” “Selected Financial and Operating Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our unaudited interim consolidated financial statements, and related notes thereto, included elsewhere in this Offering Memorandum.

	As of December 31, 2012	
	(in R\$ millions)	(in US\$ millions)
Current liabilities		
Deposits	12,869.4	6,297.8
Open market funding	52,441.1	25,662.4
Funds from securities issued and accepted	2,918.7	1,428.3
Interbank transactions	0.3	0.1
Loans and onlending	1,403.3	696.7
Derivative financial instruments	7,155.8	3,501.7
Other liabilities	19,439.9	9,513.0
Total current liabilities.....	96,228.5	47,090.0
Long-term liabilities		
Deposits	1,754.6	858.6
Open market funding	209.6	102.6
Funds from securities issued and accepted	5,561.4	2,721.5
Loans and onlending	501.4	245.4
Derivative financial instruments	907.9	444.3
Other liabilities	7,851.4	3,842.1
Total long-term liabilities.....	16,786.3	8,214.5
Deferred income	111.9	54.8
Non-controlling interest	88.1	43.1
Shareholders’ equity⁽¹⁾	10,101.5	4,943.2
Total capitalization⁽²⁾	123,316.3	60,345.6

(1) This table does not consider the January 2013 issuance of US\$1.0 billion of senior notes under this Programme maturing in 2020.

(2) Total capitalization corresponds to the sum of deposits, open market funding, funds from securities issued and accepted, interbank transactions, loans and onlending, derivative financial instruments, other liabilities, deferred income, non-controlling interest and shareholders’ equity.

EXCHANGE RATES

Before March 14, 2005, there were two foreign exchange markets in Brazil, the commercial rate exchange market and the floating rate exchange market, where exchange positions of Brazilian banks in the commercial market and the floating market were unified and differentiated solely for regulatory purposes.

The commercial market was reserved primarily for foreign trade transactions and transactions that generally require prior registration with the Central Bank, such as the purchase and sale of registered investments by foreign persons and related remittances of funds abroad. Purchases of foreign exchange in the commercial market could be carried out only through a financial institution in Brazil authorized to buy and sell currency in that market. The commercial market rate was the commercial selling rate for converting Brazilian currency into U.S. dollars, as reported by the Central Bank.

On March 4, 2005, the CMN unified the commercial market and the floating market through the enactment of Resolution No. 3,265, effective March 14, 2005, which was succeeded by CMN Resolution No. 3,568, enacted on May 29, 2008, thereby producing a single exchange market in place of the previous two. The unified exchange market is intended to simplify both inbound and outbound foreign exchange transactions by permitting exchange contracts to be executed by those local institutions that are authorized to deal in foreign exchange.

The Brazilian foreign exchange rules were recently made more flexible. For example, on March 23, 2010 the CMN enacted Resolution No. 3,844, which, as amended, consolidates the general provisions relating to foreign capital entering Brazil through direct investments and financial transactions. Such rule governs the registry of flows of direct investments, credits, royalties, transfers of technology and foreign leasing, among other things. The Central Bank, by means of Circular No. 3,491 dated March 24, 2010 and Circular No. 3,617 dated December 4, 2012, also simplified the registry of transactions. The new rules were included in the Regulation of the Exchange Market and Foreign Capital (*Regulamento do Mercado de Câmbio e Capitais Internacionais*) and several outdated rules were revoked.

The main aspects of the abovementioned rules are the following:

- financial transfers (to and from Brazil), in *reais* or foreign currency, related to the flow of foreign capital pursuant to Resolution No. 3,844, are regulated by the Brazilian exchange market;
- specific approvals or prior consent of the Central Bank are no longer required; and
- the Central Bank has waived some requirements for presentation of information relating to a transaction.

Exchange rates for the *real* can be highly volatile. The *real* appreciated throughout 2007 from R\$2.14 per US\$1.00 on December 31, 2006 to R\$1.77 per US\$1.00 on December 31, 2007. In 2008, mainly as a result of the negative impact of the global financial crisis on the Brazilian economy, the *real* depreciated significantly against the U.S. dollar. The *real*/U.S. exchange rate on December 31, 2008 was R\$2.34 per US\$1.00, a 24.2% depreciation in relation to the December 31, 2007 rate. In 2009, the *real* stabilized and then commenced appreciating against the U.S. dollar and, as of December 31, 2009, the *real*/U.S. dollar exchange rate was R\$1.74 per US\$1.00, representing an appreciation of 33.8%. In 2010, the *real* fluctuated against the U.S. dollar and, as of December 31, 2010, the *real*/U.S. dollar exchange rate was R\$1.67 per US\$1.00, an appreciation of 3.5% compared to December 31, 2009. In 2011, the *real* continued to fluctuate against the U.S. dollar and, as of December 31, 2011, the *real*/U.S. dollar exchange rate was R\$1.88 per US\$1.00. As of December 31, 2012, the exchange rate for the *real* against the U.S. dollars was R\$2.0435 per US\$1.00, and as of March 14, 2013, such exchange rate was R\$1.97 per US\$1.00.

The following table shows the *real*/U.S. Ptax 800 selling rate for U.S. dollars as published by the Central Bank for the periods and dates indicated:

Year ended	Closing Selling Rates of R\$ per US\$1.00			
	Low	High	Average⁽¹⁾	Period end
December 31, 2007	1.73	2.16	1.95	1.77
December 31, 2008	1.56	2.50	1.84	2.34
December 31, 2009	1.70	2.42	1.99	1.74
December 31, 2010	1.66	1.88	1.76	1.67
December 31, 2011	1.78	1.88	1.84	1.88
December 31, 2012	1.70	2.11	1.95	2.04
Month ended	Low	High	Average⁽²⁾	Period end
August 2012	2.02	2.05	2.03	2.04
September 2012	2.01	2.04	2.03	2.03
October 2012	2.02	2.04	2.03	2.03
November 2012	2.03	2.10	2.07	2.11
December 2012	1.99	2.11	2.04	2.04
January 2013	1.99	2.05	2.03	1.99
February 2013	1.96	1.99	1.97	1.98
March 2013 (through March 14, 2013).....	1.95	1.98	1.96	1.97

(1) Represents the average of exchange rates on each day of each respective month during the periods indicated.

(2) Represents the average of the daily exchange rates during each day of each month.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See "Risk Factors—Risks Factors Relating to Brazil—Exchange rate instability may adversely affect us."

SELECTED FINANCIAL AND OPERATING INFORMATION

The tables below set forth certain of our selected financial information as of and for the periods indicated. You should read the information below in conjunction with our financial statements and related notes and the sections “Presentation of Financial and Other Information,” “Summary Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our balance sheet and income statement as of and for the years ended December 31, 2010, 2011 and 2012 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2010, 2011 and 2012, as included elsewhere in this Offering Memorandum.

The presentation of our audited income statement is based upon Brazilian GAAP and the standardized framework established by the Central Bank, which our management believes is better suited for the financial disclosure of commercial banks rather than investment banks like us. Our management believes that the additional presentation of an adjusted income statement provides information which is more consistent with the manner in which our publicly traded global investment banking competitors present financial information to the market. Our adjusted income statement is not based on Brazilian GAAP, IFRS, U.S. GAAP or any other generally recognized accounting principles and should not be construed as segment information under IFRS 8 because our management does not rely on this information for decision-making purposes.

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the years ended December 31, 2010, 2011 and 2012. Our adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the years ended December 31, 2010, 2011 and 2012. The classification of the line items in our adjusted income statement, however, is unaudited and materially differs from the classification of the corresponding line items in our income statement. See “Presentation of Financial and Other Information—Our Unaudited Adjusted Income Statement.”

We have translated some of the *real* amounts included in this Offering Memorandum into U.S. dollars. You should not construe these translations as representations that the amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated the *real* amounts using a rate of R\$2.0435 to US\$1.00, the U.S. dollar selling rate as of December 31, 2012, published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. See “Exchange Rates.”

Selected Balance Sheet (Brazilian GAAP – audited)

	As of December 31,			
	2010	2011	2012	2012
	(in R\$ millions)			(in US\$ millions)
Assets				
Cash at banks	1,522.8	517.3	552.2	270.2
Interbank investments	25,209.3	19,583.0	23,968.9	11,729.3
Securities and derivative financial instruments	36,061.8	42,893.9	74,202.7	36,311.6
Interbank transactions	134.1	876.7	475.0	232.4
Loans	3,701.7	4,665.2	7,268.6	3,556.9
Other receivables				
Securities trading and brokerage	1,989.5	4,403.8	3,885.6	1,901.5
Other receivables	3,852.0	7,641.7	9,430.9	4,615.1
Other assets	42.5	25.1	35.5	17.4
Permanent assets	393.2	1,405.3	3,496.8	1,711.2
Total assets	72,906.9	82,012.0	123,316.3	60,345.6
Liabilities and Shareholders' equity				
Deposits	10,573.5	14,211.1	14,624.0	7,156.4
Open market funding	41,188.9	39,061.0	52,650.7	25,764.9
Funds from securities issued and accepted	1,305.5	3,774.6	8,480.1	4,149.8
Interbank transactions	–	–	0.3	0.1
Loans and onlending	155.3	919.7	1,904.7	932.1
Derivative financial instruments	2,165.7	2,953.8	8,063.7	3,946.0
Securities trading and brokerage	9,542.6	7,930.0	14,575.6	7,132.7
Subordinated debts	–	4,158.3	6,246.1	3,056.6
Other liabilities	2,348.5	2,419.9	6,469.6	3,165.9
Deferred income	24.3	31.5	111.9	54.8
Non-controlling interest	–	212.2	88.1	43.1
Shareholders' equity	5,602.6	6,339.8	10,101.5	4,943.2
Total liabilities and shareholders' equity	72,906.9	82,012.0	123,316.3	60,345.6

Income Statements (Brazilian GAAP – audited)

	For the year ended December 31,			
	2010	2011	2012	2012
	(in R\$ millions)		(in US\$ millions)	
Financial income	3,575.2	6,050.1	8,582.9	4,200.1
Loans	327.2	945.6	1,333.6	652.6
Securities	2,698.3	4,589.1	6,773.2	3,314.5
Derivative financial instruments	480.9	225.0	296.4	145.0
Foreign exchange	68.8	249.3	116.5	57.0
Mandatory investments	–	41.1	63.2	30.9
Financial expenses	(2,428.5)	(4,549.6)	(5,277.3)	(2,582.5)
Funding operations	(2,458.9)	(4,002.0)	(4,227.7)	(2,068.9)
Borrowing and onlending	37.4	(517.6)	(581.3)	(284.5)
Allowance for loan losses and other receivables	(7.0)	(30.0)	(468.3)	(229.2)
Net financial income	1,146.7	1,500.4	3,305.6	1,617.6
Other operating income (expenses)	275.6	174.3	454.4	222.4
Income from services rendered	803.0	1,107.6	2,219.2	1,086.0
Personnel expenses	(227.7)	(359.7)	(605.7)	(296.4)
Other administrative expenses	(255.2)	(355.5)	(677.9)	(331.7)
Tax charges	(188.3)	(286.0)	(283.9)	(138.9)
Equity in the earnings of associates and jointly controlled entities	–	(3.5)	245.8	120.3
Other operating income	173.6	158.1	109.0	53.3
Other operating expenses	(29.8)	(86.6)	(552.1)	(270.2)
Operating income	1,422.3	1,674.9	3,760.0	1,840.0
Non-operating income (expense)	(0.4)	9.2	(12.0)	(5.9)
Income before taxation and profit sharing	1,421.9	1,684.1	3,748.0	1,834.1
Income tax and social contribution	(381.6)	199.2	(727.5)	(356.0)
Provision for income tax	(69.2)	(116.6)	(607.5)	(297.3)
Provision for social contribution	(39.7)	(54.6)	(285.7)	(139.8)
Deferred tax assets	(272.7)	370.4	165.7	81.1
Statutory profit sharing	(229.4)	(401.2)	(938.2)	(459.1)
Non-controlling interest	–	(5.0)	(21.1)	(10.3)
Net income	810.9	1,477.1	2,061.2	1,008.7

Adjusted Income Statement (Unaudited)

	For the year ended December 31,		
	2010	2011	2012
	(Unaudited - in R\$ millions)		
Investment banking.....	344.0	338.3	448.0
Corporate lending	251.1	366.5	563.6
Sales and trading.....	637.8	999.9	1,516.6
Asset management	298.4	443.2	1,190.2
Wealth management	103.5	144.5	201.7
PanAmericano.....	0.0	(52.0)	(244.5)
Principal investments	201.6	(111.2)	1,356.9
Interest and other	147.5	518.1	587.2
Total revenues, net of direct expenses allocation.....	1,983.8	2,647.1	5,619.8
Bonus.....	(232.0)	(479.6)	(1,168.6)
Retention expenses	(53.3)	(32.5)	(5.9)
Salaries and benefits	(159.8)	(213.2)	(326.0)
Administrative and others	(207.9)	(293.1)	(537.1)
Goodwill amortization	(8.4)	(31.2)	(467.4)
Tax charges, other than income tax.....	(129.5)	(177.0)	(241.4)
Total operating expenses	(791.0)	(1,226.7)	(2,746.4)
Income before taxes	1,192.8	1,420.4	2,873.4
Income tax and social contribution revenue (expense)	(381.9)	56.6	(812.2)
Net income	810.9	1,477.0	2,061.2

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

Overview

We are an investment bank, asset manager and wealth manager with a dominant franchise in Brazil. In addition, we have established a successful international investment and distribution platform. We were founded in 1983 and have operated as a meritocratic partnership since our inception. Currently, we have offices on four continents, and provide a comprehensive range of financial services to a Brazilian and global client base that includes corporations, institutional investors, governments and HNWI.

Our seven business units are:

- **Investment Banking**, which provides financial advisory and capital markets services;
- **Corporate Lending**, which offers financing and loan guarantees to corporations;
- **Sales and Trading**, which offers financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes;
- **Asset Management**, which offers asset management services with a broad range of products across major Brazilian and international asset classes to Brazilian and international clients;
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI;
- **PanAmericano**, our commercial and consumer banking business conducted through Banco PanAmericano, an independent Brazilian bank that we have co-controlled since mid-2011, which focuses on granting automobile loans, direct consumer loans, payroll deduction loans, middle market loans and mortgages, primarily to individuals and corporations in Brazil; and
- **Principal Investments**, which involves our capital investments with respect to a broad range of financial instruments, including merchant banking and real estate investments in Brazil and investments in a variety of financial instruments in global markets, which investments are primarily managed by our asset management unit.

We are committed to further expanding our platform outside of Brazil and in 2012 we acquired Celfin, a leading broker dealer in Chile that also operates in Peru and Colombia, and Bolsa y Renta, a leading broker dealer in Colombia. Both Celfin and Bolsa y Renta have a wide array of products and services (concentrating in investment banking, sales and trading, asset management and wealth management), and we intend to further expand their operations to include many of the additional products and services we currently offer in Brazil. We believe our transactions with Celfin and Bolsa y Renta represent milestones in our efforts to replicate our history of success in Brazil throughout Latin America, and uniquely position us as a true leader throughout the region.

We are part of the BTG Pactual Group, which includes both us and BTGI. The two entities are sister entities that have the same ultimate beneficial owners. We, the principal operating company in the group, were founded as a small broker-dealer, and have grown by creating new business units and expanding the activities within these business units. BTGI, the investment vehicle for many of BTG Pactual Group's principal investments (including most of its non-Brazilian investments and certain of its Brazilian investments), was originally formed in late 2008. BTGI acts as a vehicle for part of the principal investment business of the BTG Pactual Group, and has no operating activities or employees. Its assets are managed by our asset management unit, which receives arm's length fees and commissions from BTGI for its services. Such fees and commissions are primarily recorded by us as revenues in our asset management unit. BTGI will not participate in any offering of Notes under the Programme as either an issuer or a guarantor.

Macroeconomic Environment

Most of our operations are conducted in Brazil. Accordingly, we are significantly affected by the general economic environment in Brazil. In addition, we derive substantial revenues from non-Brazilian securities and, therefore, are also subject to global economic conditions and, in particular, fluctuations in worldwide financial markets.

Economic activity in Brazil strengthened in 2010. The authorities increased the SELIC rate to 10.75% between April and July 2010, and maintained that rate through the end of the year. In 2010, the GDP in Brazil grew 7.5% and the inflation rate was 5.9%. In addition, the real appreciated 3.5% against the U.S. dollar, closing at R\$1.67 per US\$1.00 as of December 31, 2010.

Further tightening of macroeconomic policies occurred in 2011. The federal government announced cuts to the budget and, on July 20, 2011, the Central Bank increased the SELIC rate to 12.5%. Regulatory measures of credit restraint were also adopted. However, due to the worsening global macroeconomic environment and its potential impact on Brazilian economic growth and inflation levels, the Central Bank decided to decrease the SELIC rate over the course of the second half of 2011 in various steps to 11.0% as of December 31, 2011, in order to stimulate the economy while maintaining inflation within the acceptable range established by the Central Bank. In 2011, the IPCA inflation accumulated a variation of 6.5%, while the exchange rate reached R\$1.88 per US\$1.00 as of December 31, 2011, representing a 12.0% depreciation compared to the exchange rate as of December 31, 2010.

The unstable international economic environment in 2011, which reflected concerns with fiscal difficulties in Europe, impacted Brazil's stock market, which decreased 18.1% in 2011 as measured by the IBOVESPA index.

After a first half of 2011 marked by risk events and political turmoil in Greece, elections in France and the Spanish bank bailout, the third quarter of the year was marked by an improved political scenario and more accommodative monetary policies in many advanced and emerging economies. In Brazil, the loosening of the monetary policy since mid-2011 and the several other economic stimulus measures implemented by the government were expected to generate greater momentum toward the end of the year.

Signs of recovery in economic activity strengthened in 2012. The unemployment rate continued at historic lows and the slower pace of formal employment growth appears to reflect supply side constraints. Credit aggregates showed moderate growth in 2012 but overall credit conditions have improved in recent months, with a continued decline in interest rates, lower pressure on delinquencies and some recovery in vehicle financing. Retail sales growth continued to run in line with this trend while industrial activity, the weaker spot of the economy in recent quarters, posted its third monthly expansion in a row in August 2012, before showing some accommodation in September 2012. There were also signs of more adjusted inventories.

Brazil's IPCA consumer price index ended 2012 around 5.8%, far above the 4.5% center point of the country's annual inflation target, mainly due to food and beverages inflation, which represents 39% of the index, increasing 9.86%, primarily attributable to a rise in the prices of food. Food consumed at home became 10.04% more expensive mostly due to climatic problems and rose much more than the 5.43% rate increase in 2011. In addition, there was an upward contribution from the fading impact of tax breaks for durable goods which had previously played a crucial role. The general price index (IGP) also accelerated during 2012, increasing 7.2%.

Regarding monetary policy, the SELIC rate was cut by 325 bps in 2012, from 10.50% in January 2012 to 7.25% in early October 2012, which was maintained at the December 2012 meeting of the Central Bank's Committee on Monetary Policy (Comitê de Política Monetária), or COPOM. Since the commencement of the monetary easing cycle in July 2011, SELIC rate cuts totaled 5.25%. COPOM has indicated a clear intention to maintain the SELIC rate at its current level for a prolonged period of time.

The following table presents key data relating to the Brazilian economy for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
GDP growth	7.53%	2.73%	0.87%
CDI rate ⁽¹⁾	9.71%	11.60%	8.37%
TJLP ⁽²⁾	6.00%	6.00%	5.25%
SELIC rate ⁽³⁾	10.75%	11.00%	7.25%
Appreciation (depreciation) of <i>real</i> against the U.S. dollar ⁽⁴⁾	3.47%	(11.98)%	(8.57)%
Selling exchange rate (at period end) R\$ per US\$1.00 ⁽⁵⁾	R\$1.67	R\$1.88	R\$2.04
Average exchange rate R\$ per US\$1.00 ⁽⁶⁾	R\$1.76	R\$1.67	R\$1.95
Inflation (IGP-M) ⁽⁷⁾	11.32%	5.10%	7.81%
Inflation (IPCA) ⁽⁸⁾	5.91%	6.50%	5.84%

Sources: BNDES, Central Bank, IBGE and *Econômica*.

- (1) The Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI, is the average daily interbank deposit rate in Brazil (at the end of each month and annually).
- (2) *Taxa de Juros de Longo Prazo*, or TJLP, represents the long-term interest rate applied by BNDES for long-term financing (at the end of the period).
- (3) The benchmark interest rate payable to holders of some securities issued by the Brazilian government and traded on the SELIC (at the end of period).
- (4) Calculated for 2010, 2011 and 2012 using the exchange rate for conversion of U.S. dollars into *reais* on December 31 as compared to January 1 of the same year.
- (5) The selling exchange rate at the end of the period.
- (6) Average of the selling exchange rates on the last day of each month during the period.
- (7) The inflation rate is the general index of market prices (*Índice Geral de Preços – Mercado*) or IGP-M, as calculated by FGV.
- (8) The inflation rate is the Consumer Price Index, as calculated by the IBGE.

Principal Factors Affecting Our Financial Condition and Results of Operations

We face a variety of risks that are substantial and inherent to our businesses, including market, liquidity, credit, operational, legal, regulatory and reputational risks. A summary of the more important factors that could affect our businesses follows below. For a further discussion of these and other important factors that could affect our businesses, see “Risk Factors.” For a discussion of how management seeks to manage some of these risks, see “—Risk Management” below.

Market Conditions and Market Risk

The financial performance of our various business units is affected in various degrees by the environments in which we operate.

A favorable business environment in any particular market, including Brazil, is generally characterized by, among other factors, high gross domestic product growth, transparent, liquid and efficient capital markets, low inflation, a high level of business and investor confidence, stable political and economic conditions and strong business earnings. Unfavorable or uncertain economic and market conditions mainly result from: (i) declines in economic growth, business activity or investor confidence; (ii) limitations on the availability or increases in the cost of credit and capital; (iii) increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities, capital controls or limits on the remittance of dividends; (iv) outbreaks of hostilities or other geopolitical instability; (v) corporate, political or other scandals that reduce investor confidence; (vi) natural disasters or pandemics; (vii) nationalization and forced seizures by the government; or a combination of these or other factors. Our businesses and profitability have been and may continue to be adversely affected by market conditions in many ways, including the following:

- Many of our units, such as our principal investments unit and corporate lending unit, have

exposures to debt securities, loans, derivatives, mortgages, equities (including private equity) and other types of financial instruments. In addition, we also maintain an inventory of securities on our balance sheet to facilitate our clients' activities in our sales and trading unit, including our market-making business. As a result, we commit large amounts of capital to maintain financial instruments in our trading book and loans and other debt instruments in our banking book. The majority of these long and short exposures to financial instruments are marked-to-market on a daily basis and, as a result, declines in asset values directly and immediately impact our earnings, unless we have effectively "hedged" our exposures to such declines. Even with respect to financial instruments that are not marked-to-market, declines in asset values may eventually impact our earnings, unless we have effectively "hedged" our exposures to such declines. In certain circumstances (particularly in the case of private equities or other securities that are not freely tradable or lack established and liquid trading markets), it may not be possible or economically viable to hedge such exposures, and even to the extent that we do so, the hedge may be ineffective or may greatly reduce our ability to profit from increases in the values of the assets. Sudden declines and significant volatility in the prices in financial markets may substantially curtail or eliminate the trading markets for certain assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions, which could require us to maintain additional capital and increases our funding costs.

- Our cost of obtaining long-term unsecured funding is directly related to our credit spreads. Credit spreads are influenced by market perceptions of our creditworthiness. Widening credit spreads, as well as significant declines in the availability of credit, may adversely affect our ability to borrow. We fund our operations on an unsecured basis by issuing deposits, medium-term debt and long-term debt, or by obtaining lines of credit. We seek to finance many of our assets, including our less liquid assets, on a secured basis, including by entering into repurchase agreements. Disruptions in credit and financial markets make it difficult and more expensive to obtain funding for our businesses. If available funding is limited or we are forced to fund our operations at higher costs, these conditions may require us to curtail our business activities or increase our cost of funding, both of which could reduce our profitability, particularly in our businesses that involve investing, lending and taking principal positions, including market making.
- In the recent past, our business units, particularly our investment banking unit, have been, and may continue to be, adversely affected by challenging market conditions. For example, although we are not materially exposed to the debt of European countries such as Greece, Ireland, Italy, Portugal and Spain, there can be no assurance that the market disruptions that have been emerging in Europe since 2010, including the increased cost of funding for such countries' governments and financial institutions, will not spread, nor can there be any assurance that future financial assistance will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere, including Brazil and other markets in which we operate. With respect to our investment banking unit, unfavorable economic conditions and other adverse geopolitical conditions can adversely affect and have adversely affected the confidence of investors, companies and their controlling shareholders, and management teams, resulting in significant industry-wide declines in the size and number of underwritten capital raising and of financial advisory transactions, which could have an adverse effect on us.
- Certain of our sales and trading as well as our principal investment units depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect the results of these business units. However, while increased volatility can increase trading volumes and spreads, such volatility also increases risk as measured by VaR and may expose us to increased risks in connection with our sales and trading and principal investments units or cause us to reduce the size of these units in order to avoid increasing our VaR. Limiting the size of our sales and trading or principal investment units can adversely affect us.

- The performances of our asset management and wealth management units are directly influenced by prevailing economic conditions in Brazil and elsewhere. These activities generally depend, among other factors, on assumption by our clients of greater risk, which may decline in periods of economic uncertainty. In addition, unfavorable market conditions generally lead to increased interest rates for term deposits and fixed-income instruments. Any of these factors may cause our clients to transfer their assets out of our funds or affect our ability to attract new clients or additional assets from existing clients and result in reduced net revenues from these activities. We receive management fees based on the value of our clients' portfolios or investment in funds managed by us and, in many cases, we also receive performance fees based on increases in the value of such investments. Declines in asset values reduce the value of our clients' portfolios or fund assets, which in turn reduce the management and performance fees we earn for managing such assets.

Liquidity Risk

Liquidity is essential to our business. Our liquidity may be impaired by an inability to access secured and/or unsecured funding, an inability to access funds from our subsidiaries or to sell assets or redeem our investments, or by unforeseen outflows of cash or collateral. This situation may arise due to regulatory changes or circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects third parties or us, or even by the perception among market participants that we, or other market participants, are experiencing liquidity constraints. Liquidity risk tends to increase to the extent that we hold a larger inventory or trade a broader range of financial instruments and invest in non-publicly traded companies, mainly via our private equity activities.

The financial instruments that we hold and the contracts to which we are a party often do not have readily available markets to access in times of liquidity stress, as in the case of loans and other types of credit instruments and other financial instruments not traded in organized markets (i.e., over the counter financial instruments). Further, our ability to sell assets or otherwise access debt markets may be impaired if other market participants seek to sell similar assets at the same time, as is likely to occur in a general liquidity or other market crisis. In addition, financial institutions with which we interact may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair our access to liquidity.

Our credit ratings are important to our liquidity. We are rated investment grade by three rating agencies as of December 31, 2012. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, limit our access to the capital markets or trigger certain obligations under bilateral provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could, for example, be permitted to terminate contracts with us or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

Credit and Counterparty Risk

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of any of our counterparties could also have a negative impact on our results. While in many cases we are permitted to require additional collateral by counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

We finance our clients' positions as part of our sales and trading business, and we could be held liable for defaults or misconduct by our clients. Although we regularly review and manage credit exposures to specific clients and counterparties and to specific industries, countries and regions, default risk may arise from events or circumstances that are difficult to detect or foresee, particularly as new business initiatives lead us to transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.

As we have grown, the amount and duration of our credit exposures have been increasing over the past several years, and the number of entities to which we have credit exposures has increased. Due to the wholesale nature of our business, we have a natural concentration risk in our credit portfolio.

The credit risk analysis of the transactions and counterparties are performed by an independent area (Credit Risk Control), and the approval forum is the Credit Risk Committee, where the consent from both business and control functions are required.

Operational Risk

Our businesses are highly dependent on our ability to process, monitor and settle, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as the information technology associated with the services we provide to clients, must often adhere to jurisdiction or client specific guidelines as well as legal, tax and regulatory standards. We rely on proprietary and vendor systems to conduct our business within our business units and our ability to conduct business may be adversely impacted by a disruption in the technology and infrastructure that supports our businesses and the communities in which we are located. A disruption may involve electrical, communications, internet, transportation or other services used by us or third parties with whom we conduct business.

The interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses increases the risk that an operational failure at one institution may cause an industry-wide operational failure that could materially impact our ability to conduct business.

Legal and Regulatory Risk

We are subject to extensive and evolving regulation in jurisdictions around the world. Firms in the financial services industry have been operating in a difficult regulatory environment. Recent market disruptions have led to numerous proposals for significant additional regulation of the worldwide financial services industry. These regulations could limit our business activities, increase compliance costs and, to the extent the regulations strictly control the activities of financial services firms, make it more difficult for us to distinguish ourselves from competitors. Substantial legal liability or a significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business.

As a financial institution, we are generally subject to capital requirements on a consolidated basis set forth by the Central Bank, and certain of our subsidiaries are also subject to capital requirements based on standards adopted by local (i.e., host) regulators by whom they are also supervised on a stand-alone basis. Complying with these requirements may require us to liquidate assets or raise capital in a manner that adversely increases our funding costs or otherwise adversely affects our unit holders and creditors, including note holders. In addition, failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on our financial condition.

Like other institutions that operate in the financial segments in which we operate, we face some litigation risks in our businesses, including potential litigation involving securities fraud, conflicts of interest and insider trading, among others. For additional information regarding global regulatory standards for banks and banking systems and their implementation in Brazil, see "Regulatory Overview—The Brazilian Financial System and Banking Regulation—Banking Regulation—Principal Limitations and Restrictions on Financial Institutions—Capital Adequacy and Leverage."

Through our subsidiaries in the United States, we are also subject to extensive regulation under U.S. law and regulations, including oversight by FINRA and the SEC, and, through BTG Pactual Europe LLP, one of our operating entities authorized by the FSA to provide investment services in the United Kingdom, we are additionally subject to the supervision of the FSA and related regulatory requirements in the United Kingdom. See “Risk Factors—Risk Factors Relating to the Regulatory Environment—The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulations, and we cannot predict the effect of such regulation on our business,” “Regulatory Overview—Regulation in the United States” and “Regulatory Overview—Regulation in the United Kingdom.” Celfin and Bolsa y Renta are also subject to regulatory capital requirements determined by Chilean and Colombian laws and their regulators, respectively, calculated based on their own capital considered individually.

Tax Risk

Tax risk includes the risk of exposure to fines, penalties, judgments, damages and/or settlements in connection with regulatory assessment as a result of non-compliance with applicable legal and regulatory requirements.

We are subject to the tax laws of the various jurisdictions in which we operate. To determine the financial statement impact of accounting for taxes, including the provision for income tax expense and deferred tax assets, and to seek to comply with applicable tax law, we must make assumptions and judgments about how to apply these tax laws. However, many of these tax laws are complex, subject to different interpretations and are frequently under review by governmental authorities. These reviews frequently result in revisions to applicable laws, regulations and interpretations thereof, sometimes with retroactive effect.

For example, in recent years, tax authorities have paid closer attention to transfer pricing and have reviewed the allocation of income and loss, and taxes paid, to their respective jurisdictions. It is possible that tax authorities could require that items of income or loss be reallocated among, or disallowed for, our subsidiaries, or could levy tax assessments on our subsidiaries in a manner that adversely affects us.

In addition, disputes may occur regarding our view with respect to a tax position. These disputes with the various taxing authorities may be settled by audit, administrative appeals or adjudication in the court systems of the tax jurisdictions in which we operate. We regularly review whether we may be assessed additional taxes as a result of the resolution of these matters, and additional reserves may be recorded as appropriate. Additionally, we may revise our estimate of taxes due to changes in tax laws, regulatory instructions, legal interpretations and tax planning strategies. We are also responsible for withholding taxes, acting as the withholding agent in some transactions and serving as the legal representative of foreign investors, if elected. It is possible that revisions in our estimate of taxes may materially affect us in any reporting period.

Our tax department is accountable for managing tax risks and also for supporting all our business units and administrative areas. All potential risks are promptly and clearly reported to our Senior Management Team.

Reputational Risk

The success of our businesses is highly dependent on our reputation and, as result, we maintain principles and practices that we believe conform to the highest ethical standards. We carefully and selectively review transactions and services before we accept an engagement in order to minimize any potential damage to our reputation. We believe that damage to our reputation can arise from (i) doing business with controversial counterparties or clients, (ii) the social, environmental or public impact of a transaction performed or facilitated by us, (iii) any action or decision that does not conform to the letter and spirit of the law and regulations to which we and our clients are subject and (iv) the perceptions of our clients, counterparties, investors and regulators, or the public in general, with respect to the foregoing. To ensure the appropriate monitoring of reputational risks, we maintain a Code of Conduct, which sets forth

our principles regarding ethical business standards. In addition, we provide specific guidance on various topics in the form of internal policies and procedure manuals and offer extensive training for all of our staff.

Our Audited Financial Statements

Applicable Accounting Standards

We prepare our consolidated financial statements in *reais* in accordance with Brazilian GAAP. Law No. 11,638/07 and Law No. 11,941/09 amended Brazilian Corporations Law and introduced the process of conversion of financial statements into IFRS. However, the Central Bank did not fully adopt, as part of the accounting practices applicable to financial institutions, the provisions of Law No. 11,638. Instead, pursuant to Central Bank Communication No. 14,259, financial institutions that meet certain criteria are required to prepare supplemental consolidated financial statements which follow certain of the IFRS standards as originally issued by IASB, as from December 31, 2010.

As a result of our registration as a public company with the CVM, we were required to prepare consolidated financial statements for the years ended December 31, 2010, 2011 and 2012 in accordance with IFRS. Unless the context requires otherwise, any reference to our financial statements for the years ended December 31, 2010, 2011 and 2012 in this Offering Memorandum are to those consolidated financial statements of Banco BTG Pactual prepared in accordance with the accounting practices applicable to institutions accredited by the Central Bank (Brazilian GAAP). No financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum. See “Annex A: Differences Between Brazilian GAAP and IFRS.”

Functional Currency

Our financial statements and the summary and selected financial information based on our financial statements, as well as the accounting information that generated accounting records for preparing such financial statements were prepared in *reais*.

Emphasis Paragraphs Included in the Auditors’ Reports

Our auditors’ reports included elsewhere in this Offering Memorandum include certain emphasis paragraphs that are described in detail under “Presentation of Financial and Other Information—Financial Statements – Emphasis Paragraphs Included in the Auditors’ Reports.”

Reclassification of Prior Period Statements

We have reevaluated the presentation of the results from energy trading contracts generated by our subsidiary Coomex that is described in detail under “Presentation of Financial and Other Information—Financial Statements – Reclassification of Prior Period Statements.”

Selected Balance Sheets and Income Statements

Our balance sheet and income statement data as of and for the years ended December 31, 2010, 2011 and 2012 are derived from and should be read in conjunction with our consolidated audited financial statements and related notes prepared in accordance with Brazilian GAAP included elsewhere in this Offering Memorandum.

Critical Accounting Policies

In connection with the preparation of our financial statements, we were required to make judgments, estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial information and the reported amounts of revenue and expenses during the reporting periods. Our judgment is particularly relevant in the determination of fair values of financial assets and the assessment of the need for provisions for contingent liabilities. Although we believe that our judgment and estimates are based on reasonable assumptions and are made in light of information available to us, they are

nevertheless subject to several risks and uncertainties and our actual results may differ from these judgments and estimates.

We set forth below summarized information relating to our critical accounting policies. See the notes to our financial statements for further information on these critical accounting policies and other accounting policies we adopt.

Market Value

Securities and derivatives on our balance sheet (i.e., its inventory) are recorded at market value in our financial statements. Market value is defined as the amount that would be received to sell an asset, or paid to transfer a liability, in a transaction between independent market participants willing to negotiate such assets and liabilities at the determination date.

We determine the market value of our inventory based on unadjusted quoted prices of identical assets and liabilities negotiated in active markets or, in the absence of such information, on other price inputs that can be observed directly or indirectly in transactions executed in an active market. In addition, we hold financial instruments for which no prices are available and which have little or no observable inputs. For these instruments, we use model based valuation techniques that determine the market value of a security or derivative from price inputs that cannot be observed in market transactions.

The determination of market value requires subjective assessments and varying degrees of judgment depending on liquidity, concentration, procedures governing the settlement of transactions by market participants and risks affecting the specific instrument, and ultimately depends on our management's assumptions.

Each of our business units is primarily responsible for the management of our inventory and for the determination of the fair market value of the instruments it reports. It is the responsibility of our control function to independently verify prices and ensure that the market value of our inventory is appropriate and is determined on a reasonable basis. In case there is a discrepancy, the senior management of our control departments is ultimately responsible for the valuation of our inventory.

Open Market Investments and Open Market Funding

Open market investments and funding are recorded at the historical values, plus accrued interest income and expenses to the balance sheet date, recorded on a daily pro rata basis and calculated based on the variation in the indices or the interest rate agreed.

Securities

We record securities in our portfolio as follows:

- *Trading Securities.* We record the securities we acquire for trading in our balance sheet at their acquisition cost, and recognize any valuation adjustments resulting from mark-to-market accounting and earnings derived from such securities on a daily basis. These adjustments and earnings are also recognized as revenues or expenses, as the case may be, in our income statement.
- *Securities available for sale.* We record any securities in balance sheet not classified as trading securities nor securities held to maturity as securities available for sale. These securities are maintained in our books at their acquisition cost, and are marked-to-market on a daily basis following the same valuation criteria as with respect to the trading securities. However, the unrealized gains or losses from securities available for sale are recorded as other comprehensive income, or OCI, in our net equity in our income statement. Once the securities available for sale security is sold or otherwise disposed of, unrealized gains or losses recorded in OCI are released through our income statement.

- *Securities held to maturity.* We record the securities that we intend and have the financial capacity to hold through maturity in our balance sheet at their acquisition cost and add any contractual earnings derived from such securities on a daily basis. These earnings are also recognized as revenues in our income statement. We do not make mark-to-market adjustments in connection with these securities. Securities classified in this category are subject of adjustments when permanent losses are identified.

Derivatives

We record options, futures contracts, swaps and forward positions as follows:

- *Options.* A premium received is classified as a liability until option maturity, when it is then recognized as a reduction of the cost of the acquired financial instrument underlying the option or as income, in the event that the option expires and is not exercised. A premium paid is classified as an asset until the option maturity, when it is then recognized as an increase in the cost of the acquired financial instrument underlying the option or as an expense, in the event that the option expires and is not exercised. During the period of the contract, options are marked-to-market and the corresponding gain or loss is recorded in our income statement. The nominal value of the purchase and sale agreements is recorded in our memorandum accounts.
- *Futures contracts.* The daily adjustment of our futures contracts are recorded as income or expenses as effectively earned or incurred. The nominal value of the purchase and sale agreements is recorded in our memorandum accounts.
- *Swaps and non-deliverable forwards.* The differential receivable or payable is recorded in our balance sheet and the corresponding revenue or expense, respectively, is recorded in our income statement on a daily basis at market value. The nominal value of the purchase and sale agreements is recorded in our memorandum accounts.
- *Forward.* Long and short positions of each contract are booked separately as an asset and liability, respectively, in our balance sheet. The contracts are marked to market and the corresponding gain or loss is recognized in our income statement. The nominal value of the purchase and sale agreements is recorded in our memorandum accounts.

Loans and Allowance for Loan Losses

The classification of our loans is based on the requirements of CMN Resolution No. 2,682/99, as amended, which requires us to periodically analyze our loan portfolio and classify our loans within nine rating levels, ranging from “AA” (minimum credit risk) to “H” (maximum credit risk). Any loans classified as level “H” (which requires a provision equal to the full amount of the loan) must be written off after being classified as such for a period of nine months. The write-off amount is recognized against the existing provision, and the write-off records are maintained for up to five years in a memorandum account. From this moment, the written off balances are no longer included in our balance sheet accounts, and any eventual recovery from loans allocated to the memorandum account is recognized only when cash is received. See “—Risk Management—Credit Risk.”

Provision for Legal Contingencies

We are currently party to tax, labor and civil proceedings arising from the normal course of our business. For each of these legal proceedings, we classify as “probable,” “possible” and “remote” the risk that any contingencies will materialize into actual losses for us. We generally record provisions in our books when we classify the risk of any loss related to these contingencies as probable. We do not constitute provisions for contingencies when we consider the associated risk as possible or remote. We also do not recognize in our financial statements contingent assets, unless there is evidence based on an irrevocable decision of the relevant court or regulatory authority ensuring their realization. We typically base our classifications of the probability of losses on legal claims on the opinion of our external counsel, taking into

consideration the analysis of the possible outcomes of the claims, the litigation strategies for challenging such claims or the possibility of entering into agreements in relation to such claims. Any change in the circumstances of the claims are taken into account in the process of classification of our risk of loss in the lawsuits to which we are party and may lead us to revise our provision for contingencies.

Recognition of Results of Operations

Except with respect to certain financial instruments and transactions with securities and derivatives, our results of operations are recognized on an accrual basis. For additional information regarding instruments and transactions which are not recognized on an accrual basis, see the notes to our financial statements. Management fees are recognized over the period that the related service is provided based upon average net asset values. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund's return or when the return on AUM exceeds specified benchmark returns or other performance targets. Performance fees are generally based on investment performance over a 6 or 12-month period and are recognized in our income statement when the measurement period ends.

Cash and Cash Equivalents

Cash at banks in our balance sheet includes cash on hand and bank deposits, together with short-term highly liquid investments that we believe are subject to insignificant risk of changes in value and have a maturity of 90 days or less. It does not include other highly liquid and unencumbered sovereign bonds that we consider as readily available liquidity in our cash position in accordance with our liquidity management policy (see "—Liquidity").

Deferred Income Tax and Social Contribution

Our income tax and social contribution imposed by Brazilian law are recorded under current or deferred assets and/or liabilities.

Current Brazilian income tax (IRPJ) is calculated based on our taxable income at the rate of 25.0% (15.0% plus an additional 10.0% for taxable income in excess of R\$240,000). The Brazilian social contribution (CSLL) tax is calculated based on our taxable income at the following rates: (a) for Brazilian entities in our group that are deemed financial institutions under Brazilian tax law, 9.0% prior to April 30, 2008 and 15.0% after April 30, 2008, and (b) for Brazilian entities in our group that are deemed non-financial institutions under Brazilian tax law, 9.0%. Brazilian tax legislation allows us to offset tax losses from prior periods against the taxable income of the current period, with no time limitation, but only up to 30.0% of the taxable income of each fiscal year.

Deferred income tax and social contribution include the effects from the recognition of "temporary differences," which are composed mainly of amortization of goodwill and intangibles recognized in business combinations and provisions usually related to contingencies, allowance for loan losses and deferred earnings related to securities and derivatives, which are not deductible nor taxable in the calculation of the tax basis when accrued, but only at a later point in time when their financial realization occurs. When calculating our income tax, we recognize all recorded provisions as temporary differences. For purposes of recognition and maintenance of deferred tax assets, we are required to comply with specific rules set forth by the Central Bank.

Current and Long-Term Liabilities

Current and long-term liabilities are stated at known or estimated values, including, as applicable, accrued charges and monetary (on a daily pro rata basis) and foreign exchange variation.

Offsetting Financial Securities and Derivatives

We offset financial assets and financial liabilities and report the corresponding net amount in our balance sheets if (i) we are legally entitled to offset such financial assets and liabilities and (ii) we intend to

(a) settle such financial assets and financial liabilities on a net basis or (b) realize the financial asset and settle the financial liability simultaneously.

Sale and Transfer of Financial Assets

Until December 31, 2011, no specific accounting pronouncement addressed the recording of transfers of financial assets pursuant to Brazilian GAAP, except for when such a transfer involved a special purpose entity that is in substance controlled by the reporting entity. In addition, the sale or transfer of financial assets was derecognized from the balance sheet when the transferor retained all or substantially all of the risks and benefits relating to the ownership of such transferred asset. Commencing on January 1, 2012, financial assets remain on the transferor's balance sheet when the transferor sells or transfers a financial asset and retains all or substantially all of the risks and benefits of the asset. In such case, a financial liability is recognized for the consideration received for such asset.

Our Unaudited Adjusted Income Statement

The presentation of our audited income statement is based upon Brazilian GAAP and the standardized framework established by the Central Bank, which our management believes is better suited for the financial disclosure of commercial banks rather than investment banks like us. Our management believes that the additional presentation of an adjusted income statement provides information which is more consistent with the manner in which our publicly-traded global investment banking competitors present financial information to the market.

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the years ended December 31, 2010, 2011 and 2012 and a discussion of such adjusted income statement. Our adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the years ended December 31, 2010, 2011 and 2012. The classification of the line items in our adjusted income statement, however, is unaudited and materially differs from the classification of the corresponding line items in our income statement, as further described below. Prospective investors are urged to read carefully the financial statements before making an investment decision to purchase the Notes.

A summary of certain material presentation differences between our adjusted income statement and the presentation of the income statement in accordance with Brazilian GAAP can be found on "Presentation of Financial Information and Other Information - Unaudited Adjusted Income Statement".

Recent Acquisitions, Divestitures and Corporate Restructurings Affecting our Results of Operations

Initial Public Offering

On April 30, 2012, the BTG Pactual Group completed its initial public offering, consisting of 103,500,000 units, each representing, directly or through depositary receipts, (i) one common share and two preferred shares of our capital stock and (ii) one voting share and two non-voting shares of BTG Pactual Participations. The majority of these units were listed in Brazil on the BM&FBOVESPA, and 129,000 units were also listed in Europe on the Alternext Amsterdam, the multilateral trading facility operated by Euronext Amsterdam N.V. The majority of the units offered in the initial public offering are represented by primary securities, resulting in gross proceeds to the BTG Pactual Group of approximately R\$2,587.5 million, of which we received R\$2,070.0 million. We have and expect to continue to use our portion of the proceeds from the initial public offering of the BTG Pactual Group to, among other things, increase our corporate lending and sales and trading operations and develop new lines of business. The IPO proceeds received by us qualify as Tier I capital for regulatory purposes.

Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE

In January 2011, we entered into an agreement to purchase 100% of the shares in Banco PanAmericano held by Grupo Silvio Santos for R\$450.0 million, representing a 37.64% equity interest in

Banco PanAmericano (composed of 51.0% of its voting shares and 21.97% of its non-voting shares). The transaction was approved by the Central Bank and closed on May 27, 2011. Such acquisition triggered a requirement that we commence a tender offer to purchase additional shares of Banco PanAmericano held by its minority shareholders. This tender offer was completed on September 16, 2011, resulting in an acquisition of an immaterial amount of additional non-voting shares of Banco PanAmericano. As a result, we maintained our 34.06% equity interest in Banco PanAmericano's total outstanding equity. In connection with this acquisition, we and CaixaPar, the co-controlling entity which owns a 37.0% equity interest in Banco PanAmericano's total capital stock, entered into a shareholders agreement which establishes the conditions for the shared control of Banco PanAmericano. In addition, CaixaPar reiterated its commitment to preserve our strategic alliance with Banco PanAmericano by entering into a cooperation agreement under which CaixaPar agreed to acquire credits originated by, and invest in deposits issued by Banco PanAmericano, thus helping to support its future business. Banco PanAmericano and CaixaPar also intend to expand the range of the financial products and services they offer through leveraging on their distribution channels. We believe the deal will strengthen our partnership with CaixaPar.

The banking supervision and compliance with regulatory capital requirements of Banco PanAmericano are performed and measured on a segregated basis from those of ours. Accordingly, we calculate our regulatory capital without giving effect to the assets and liabilities, risks and financial position of Banco PanAmericano, and we do not perform the proportional consolidation of Banco PanAmericano into our balance sheet. This results in each of us and Banco PanAmericano continuing to calculate the respective regulatory capital requirements on a stand-alone basis, as two independent banking conglomerates.

In November 2010, Banco PanAmericano disclosed that a series of accounting inconsistencies had been uncovered at Banco PanAmericano which resulted in losses totaling R\$2.5 billion. Upon such announcement, Grupo Silvio Santos and CaixaPar sought to prevent new inconsistencies by electing a new management team at Banco PanAmericano. In addition, Grupo Silvio Santos agreed to make Banco PanAmericano whole for such losses by injecting capital into it for the same total amount. Subsequently, additional financial irregularities totaling R\$1.3 billion and other adjustments totaling R\$0.5 billion were identified. As a consequence, on January 31, 2011, Grupo Silvio Santos injected an additional R\$1.3 billion into Banco PanAmericano and agreed to sell its stake in Banco PanAmericano to us. We elected new officers and directors of Banco PanAmericano in April 2011. As a result of the significant weaknesses and irregularities of the accounting systems and internal controls of Banco PanAmericano at the time of our acquisition, it is currently executing important investments in technology and processes in order to improve operational and competitive conditions of the bank. In addition, we, together with Caixa, elected the new management of Banco PanAmericano.

In April 2011, we acquired senior quotas of a credit receivable investment fund, or FIDC, representing 80% of the fund's capital. The FIDC is composed exclusively of credits originated by Banco PanAmericano in the total amount of approximately R\$3.5 billion. Such credits were previously acquired from Banco PanAmericano indirectly by Fundo Garantidor de Crédito—FGC, which established the FIDC and retained ownership of subordinated quotas representing 20% of the FIDC's capital. In December 2011, we acquired the subordinated quotas of the FIDC, as a result increasing our ownership in the FIDC to 100%.

Banco PanAmericano generated a consolidated net income of R\$67.0 million in 2011 and a consolidated net loss of R\$495.9 million in 2012, calculated in accordance with Brazilian GAAP. We cannot assure you that it will not continue to generate net losses in 2013 or thereafter. We record the results of operations from Banco PanAmericano using the equity method of accounting, pursuant to which our share of Banco PanAmericano's net income or net losses, as deducted by accumulated losses adjustments relating to previous periods, is recognized in our income statement as equity in the earnings of associates and jointly controlled entities. Banco PanAmericano recorded substantial adjustments to accumulated losses in 2011. Accordingly, we recorded losses of R\$27.2 million in connection with Banco PanAmericano's equity pick-up for 2011 and losses of R\$160.3 million in 2012. Banco PanAmericano's management is taking several initiatives intended to improve Banco PanAmericano's profitability and aiming to avoid further losses.

On January 18, 2012, Banco PanAmericano's shareholders approved a capital increase in an amount of up to R\$1.8 billion, with an issue price of R\$6.05 per share. We and CaixaPar committed to exercise preemptive rights for an aggregate amount of R\$1.335 billion, with our share amounting to R\$677.0 million. However, we agreed that, upon the request of TPG Axon, we would transfer part of our preemptive rights with respect to a total of R\$182 million of our R\$677 million commitment. TPG-Axon elected to exercise such rights and, on April 17, 2012, subscribed for preferred shares representing, after the capital increase, 12.0% of Banco PanAmericano's preferred shares and 5.55% of its total capital stock, thus reducing our contribution to R\$495.4 million. Following such exercise, we maintained our 51.0% equity interest in Banco PanAmericano's common shares, and we and CaixaPar continue to co-control Banco PanAmericano pursuant to the terms of a shareholders agreement which establishes the conditions for shared control.

On January 31, 2012, we and Banco PanAmericano entered into definitive agreements to purchase 100% of the shares of BFRE. The total purchase price (subject to adjustment) was approximately R\$1.21 billion (without including the R\$335 million purchase price of certain assets by us described below), of which R\$940 million was paid by PanAmericano and R\$270 million was paid by us. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The first such company (Brazilian Capital Companhia de Gestão de Investimentos, or Brazilian Capital), which we acquired, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In addition, we paid approximately R\$335 million (subject to adjustment) to purchase certain real estate and equity investment funds held by BFRE. The remainder of the businesses conducted by BFRE will remain in the second company, which was purchased by Banco PanAmericano.

We believe that the actions described above will enhance the capital structure of Banco PanAmericano and support its growth plans. However, it is possible that the initiatives to return Banco PanAmericano to profitability may not meet the expected results and that new capital injections at Banco PanAmericano will be required. See "Risk Factors—Risk Factors Relating to Our Business and Industry—Our inability to successfully implement our strategy relating to, or to realize the intended benefits from, our recent acquisition of a co-controlling interest in Banco PanAmericano or Banco PanAmericano's acquisition of BFRE could have a material adverse effect on us."

Acquisition of Celfin

On November 13, 2012, we concluded the purchase of all of the outstanding shares of Celfin. In connection with the transaction, we, through BTG Pactual Chile Spa., paid the owners of Celfin a total of US\$451.5 million in cash, and the former owners of Celfin acquired approximately 2.2% (calculated as of the date of this Offering Memorandum) of the total outstanding equity interests in us and BTGI for R\$391.8 million and US\$49.1 million, respectively. Such equity interest is subject to repurchase by us at a nominal amount in certain limited circumstances during the four years following completion of the transaction. Such provisions are designed to provide the former shareholders of Celfin with incentives to remain active participants in the combined entity following the transaction, and we expect that they will do so.

As of December 31, 2012, BTG Pactual Chile Spa., which is the parent company of Celfin, had consolidated shareholders' equity and total assets of R\$923.5 million and R\$2,153.7 million, respectively, prepared in accordance with Brazilian GAAP. For accounting purposes, Celfin's results have been consolidated into ours since November 1, 2012. We recorded goodwill in the amount of R\$726 million in this transaction in accordance with Brazilian GAAP. See "Business—Celfin".

Establishment of One Properties and Merger into BR Properties

On June 10, 2011, we entered into an investment agreement with WTorre Properties S.A. to establish One Properties S.A., or One Properties, a jointly-controlled company focused on the development, acquisition, leasing and sale of commercial & industrial/logistics real estate properties in Brazil. Under the terms of this transaction, which settled on November 22, 2011, a real estate vehicle controlled by us through a 91.9% equity interest, Safra Diamante Empreendimentos Imobiliários S.A., transferred real estate assets and cash to One Properties in the aggregate amount of R\$1.5 billion in exchange for 49.9% of the

ownership interests in the joint venture, plus warrants that permit it to purchase an additional 23.4% ownership interest, subject to certain conditions.

On January 14, 2012, we and WTorre Properties S.A. agreed to merge One Properties with BR Properties S.A., or BR Properties, another leading real estate company in Brazil. On March 29, 2012, the transaction closed, resulting in the creation of the largest publicly traded commercial real estate company in Brazil, with over R\$10 billion in assets. In connection therewith, 129,813,498 new common shares of BR Properties were issued to the original shareholders of One Properties in exchange for the shares of One Properties previously held by them. As a result, One Properties' original shareholders hold a 41.9% equity interest in BR Properties, with us owning 28.3% of BR Properties' shares. As part of this transaction, Saíra Diamante Empreendimentos Imobiliários S.A., our subsidiary, was also merged into BR Properties. We record the results of operations from BR Properties using the equity method of accounting.

Acquisition of Coomex Empresa Operadora do Mercado Energético Ltda.

On September 20, 2010, we acquired all of the issued shares of Coomex Empresa Operadora do Mercado Energético Ltda., or Coomex, a leading independent energy trader in Brazil for a total purchase price of R\$183.0 million, of which R\$40.0 million will be paid in 2013. Following such acquisition, Coomex's energy trading operations were integrated into our structure to form our energy trading desk. The acquisition of Coomex was an important step in consolidating our commodities trading activities and expanding our product mix. In the second half of 2011, BTG Pactual Agente – Comercializador de Energia Ltda. was merged into Coomex Empresa Operadora do Mercado Energético Ltda.

Establishment of BW Properties S.A.

In connection with the One Properties transaction, on November 22, 2011, we entered into an investment agreement with WTorre Properties S.A. to establish BW Properties S.A., or BW Properties, a real estate development company which holds longer term real estate commercial development projects. Pursuant to the terms of the agreement, we hold a 67.5% equity interest in BW Properties, which was established to focus on the development of two commercial real estate assets located in the city of São Paulo, Brazil.

Corporate Restructuring

In September 2011, following the granting of the required regulatory approvals, we and BTGI concluded a corporate restructuring pursuant to which BTGI's former subsidiaries responsible for conducting the BTG Pactual Group's international platforms in London, New York and Hong Kong were transferred to us. The purpose of this transaction was to transfer BTGI's remaining operating subsidiaries to us, and was realized at book value in an aggregate amount of US\$188.1 million. Although this corporate restructuring will not affect the financial condition or results of operations of the BTG Pactual Group, we expect that it will materially affect our administrative and personnel expenses on a stand-alone basis going forward. After the completion of this corporate restructuring, BTGI continued to function as the investment vehicle for part of the principal investment business of the BTG Pactual Group. As a result of the restructuring, BTGI does not have employees and consequently does not conduct any operating activities, directly or through any of its subsidiaries, and its assets will continue to be managed by our asset management unit.

Acquisition of Bolsa y Renta

On June 14, 2012, we entered into a definitive agreement to purchase 100% of the outstanding shares of Bolsa y Renta, one of Colombia's largest equity brokerage firms in terms of transaction volume, for approximately US\$51.9 million, thus concluding negotiations initiated with Bolsa y Renta in 2011. On December 20, 2012, we concluded the purchase of all of the outstanding shares of Bolsa y Renta for a total consideration of US\$58.4 million in cash, and the former owners of Bolsa y Renta acquired equity interests in us and BTG Pactual Participations equal to R\$52.5 million and US\$6.4 million, respectively, representing approximately 0.25% of the capital stock of each company (calculated based on our outstanding capital stock and the outstanding capital stock of BTG Pactual Participations as of the date of

this Offering Memorandum). The value of the equity investment was negotiated and pre-determined in U.S. dollars at the end of 2011, prior to our and BTG Pactual Participations' initial public offering. We expect that Bolsa y Renta's current executives will continue to manage operations in Colombia and, accordingly, we anticipate paying additional amounts in the form of retention bonuses and deferred compensation to certain of the Bolsa y Renta's executives from the second through the fourth anniversaries of the date on which we entered into a definitive agreement with respect to the transaction.

As of December 31, 2012, Bolsa y Renta had consolidated shareholders' equity and total assets of R\$74.1 million and R\$89.9 million, respectively, prepared in accordance with Brazilian GAAP. For accounting purposes, Bolsa y Renta's assets and liabilities have been consolidated with ours since December 31, 2012 and their results will be consolidated with ours in 2013. We recorded goodwill in the amount of R\$47.1 million in this transaction in accordance with Brazilian GAAP. See "Business – Bolsa y Renta"

Acquisition of Bamerindus

On January 30, 2013, we entered into definitive agreements related to our acquisition of certain credits and rights held by Fundo Garantidor de Créditos, or FGC, against Banco Bamerindus do Brasil S.A., or Bamerindus, in extrajudicial liquidation, and other companies in Bamerindus's economic group. In connection with the transaction, we will pay approximately R\$418.0 million to FGC in five installments, the first of which will be paid at the closing of the transaction and the other four on the first through fourth anniversary of the closing. The four installments will be adjusted by CDI. This transaction will result in us acquiring (i) control of Bamerindus and its subsidiaries, (ii) an interest in Bamerindus greater than 98.0% of its total and voting capital, and (iii) the receivables and assets held by the Bamerindus, which will be used in the context of our credit operations. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals, the completion of the extrajudicial liquidation of Bamerindus and its subsidiaries, and the settlement of certain of their financial obligations in order for Bamerindus to have positive shareholders' equity. The transaction does not include the right to the Bamerindus brand. We expect the transaction to close no later than the third quarter of 2013, although there can be no assurance that the transaction will be concluded. We do not expect that the transaction, if consummated, will materially affect our financial condition or results of operations.

Our Consolidated Income Statement (Brazilian GAAP—audited)

The following table sets forth our income statement prepared in accordance with Brazilian GAAP for the years ended December 31, 2010, 2011 and 2012 included in the financial statements included elsewhere in this Offering Memorandum:

	For the year ended December 31,		
	2010	2011	2012
	(in R\$ millions)		
Financial income	3,575.2	6,050.1	8,582.9
Loans	327.2	945.6	1,333.6
Securities	2,698.3	4,589.1	6,773.2
Derivative financial instruments	480.9	225.0	296.4
Foreign exchange	68.8	249.3	116.5
Mandatory investments	—	41.1	63.2
Financial expenses	(2,428.5)	(4,549.6)	(5,277.3)
Funding operations	(2,458.9)	(4,002.0)	(4,227.7)
Borrowing and onlending	37.4	(517.6)	(581.3)
Allowance for loan losses and other receivables	(7.0)	(30.0)	(468.3)
Net financial income	1,146.7	1,500.4	3,305.6
Other operating income (expenses)	275.6	174.3	454.4
Income from services rendered	803.0	1,107.6	2,219.2
Personnel expenses	(227.7)	(359.7)	(605.7)
Other administrative expenses	(255.2)	(355.5)	(677.9)
Tax charges	(188.3)	(286.0)	(283.9)
Equity in the earnings of associates and jointly controlled entities	—	(3.5)	245.8
Other operating income	173.6	158.1	109.0
Other operating expenses	(29.8)	(86.6)	(552.1)
Operating income	1,422.3	1,674.9	3,760.0
Non-operating income (expense)	(0.4)	9.2	(12.0)
Income before taxation and profit sharing	1,421.9	1,684.1	3,748.0
Income tax and social contribution	(381.6)	199.2	(727.5)
Provision for income tax	(69.2)	(116.6)	(607.5)
Provision for social contribution	(39.7)	(54.6)	(285.7)
Deferred tax assets	(272.7)	370.4	165.7
Statutory profit sharing	(229.4)	(401.2)	(938.2)
Non-controlling interest	—	(5.0)	(21.1)
Net income	810.9	1,477.1	2,061.2

Net Financial Income

Our net financial income consists of our financial income less our financial expenses.

Our financial income is composed primarily of income derived from (i) interest we charge on our loans plus commissions charged in connection with our credit operations, (ii) interest income, realized gains or losses from transactions involving securities and unrealized gains and losses arising from mark-to-market accounting practices applicable to our securities portfolio, which may include government bonds and private securities as well as repurchase agreements, (iii) net realized and unrealized gains from (a) our trading of financial instruments for the purpose of mitigating risk, including swaps, forwards, futures, options and other derivatives, in accordance with our customers' needs, and (b) mark-to-market accounting practices applicable to such instruments, (iv) net gains from fluctuations of exchange rates related to our positions in foreign currencies and commissions obtained from transactions involving the purchase and sale of foreign currencies, and (v) interest on mandatory deposits maintained at the Central Bank.

Our financial expenses are composed primarily of expenses derived from (i) interest expenses in connection with repurchase agreements on open market transactions and deposits; (ii) interest and fees paid on our borrowings in Brazil and abroad, including borrowings from Brazilian governmental agencies such

as BNDES, in which we act as agent; (iii) net realized and unrealized losses from (a) our trading of financial instruments for the purpose of mitigating risk, including swaps, forwards, futures, options and other derivatives, and (b) mark-to-market accounting practices applicable to such instruments; (iv) gains or losses on our short position of equities on BM&FBOVESPA; (v) interest expenses on secured funding obtained from our prime brokers and (vi) allowance for loan losses made in accordance with our accounting practices and as determined by the requirements of CMN Resolution 2,682/99.

2012 versus 2011

Our net financial income increased 120.3%, from R\$1,500.4 million in 2011 to R\$3,305.6 million in 2012, mainly due to the general growth of our businesses and the deployment of proceeds from our initial public offering in April 2012.

Financial Income. Our financial income increased 41.9%, from R\$6,050.1 million in 2011 to R\$8,582.9 million in 2012. This increase was due to the following factors:

Loans. Our revenues from loans increased 41.0%, from R\$945.6 million in 2011 to R\$1,333.6 million in 2012, mainly due to: (i) a 28.4% increase in our loan portfolio, from an average balance of R\$5,183.9 million in 2011 to an average balance of R\$6,654.0 million in 2012; and (ii) a 141.7% increase in our credit receivable portfolio, which includes primarily payroll loans and vehicle financing through our credit receivable investment fund (FIDC), from an average balance of R\$1,146.8 million in 2011 to an average balance of R\$2,771.8 million in 2012. This increase was partially offset by lower CDI interest rates, which decreased from an average of 11.6% in 2011 to an average of 8.4% in 2012.

Securities. Our revenues from securities increased 47.6%, from R\$4,589.1 million in 2011 to R\$6,773.2 million in 2012, mainly due to (i) higher trading revenues from securities traded in the international markets; (ii) higher revenues from securities with credit exposure, such as debentures, promissory notes and certificate of real estate receivables, which increased from an average balance of R\$3,254.4 million in 2011 to an average balance of R\$8,527.7 million in 2012, and (iii) higher trading revenues from cash equities due to the performance of the IBOVESPA index (particularly in the first quarter of 2012), which increased 7.3% in 2012, compared to a 18.1% decrease in 2011.

Derivative Financial Instruments. Our results from derivative financial instruments increased 31.7%, from R\$225.0 million in 2011 to R\$296.4 million in 2012, mainly due to (i) increased gains from equity-linked derivatives and (ii) increased gains from derivatives linked to interest rates as a result of the positive impact of CDI rate decreases during the period, from 11.6% in 2011 to 8.4% in 2012. This gain was partially offset by losses from derivative transactions related to our global market strategy and lower gains from energy contracts.

Foreign Exchange. Our foreign exchange results decreased 53.3%, from R\$249.3 million in 2011 to R\$116.5 million in 2012, primarily as a result of the higher foreign exchange rate volatility in the foreign exchange markets in Brazil in 2011.

Mandatory Investments. Our revenues from mandatory investments, which are derived from our mandatory deposits placed with the Central Bank, increased 53.8%, from R\$41.1 million in 2011 to R\$63.2 million in 2012. While the average balance of our mandatory deposits (which is indexed to the SELIC rate) remained relatively stable from July to December 2011 and through 2012, we recorded higher revenues in 2012 as a result of full-year interest recognition in 2012 compared to only half-year interest recognition in 2011. Our mandatory deposits are required by the Central Bank as a function of our balance of time deposits, which has been growing consistently over the past three years. In the second half of 2011, our total balance of time deposits for the first time exceeded the threshold above which we are required to place mandatory deposits with the Central Bank. This increase in revenues from mandatory investments was partially offset by a decrease in the SELIC rate, from an average of 11.6% in 2011 to an average of 8.4% in 2012.

Financial Expenses. Our financial expenses increased 16.0%, from R\$4,549.6 million in 2011 to R\$5,277.3 million in 2012. This increase was due to the following factors:

Funding Operations. Our expenses from funding operations increased 5.6%, from R\$4,002.0 million in 2011 to R\$4,227.7 million in 2012, mainly as a result of (i) an increase in expenses, from R\$200.4 million in 2011 to R\$465.5 million in 2012, due to our issuance of R\$3.975 billion in subordinated notes in April 2011, with an average maturity of 7.8 years with no principal payments due until October 2016, (ii) an increase in expenses of R\$24.8 million in 2012 related to the issuance of US\$800.0 million ten-year subordinated notes in September 2012, at a fixed-rate of 5.75% per annum and (iii) an increase in expenses, from R\$23.8 million in 2011 to R\$51.9 million in 2012, due mainly to the issuance of US\$500 million five-year senior notes in July 2011 and US\$235.0 million five-year senior notes in September and October 2012. These increases were partially offset by lower CDI interest rates, which decreased from an average of 11.6% in 2011 to an average of 8.4% in 2012. This decrease impacted expenses related to most of our funding instruments, particularly (i) our open market funding, which decreased from R\$2,645.9 million in 2011 to R\$2,584.0 million in 2012, despite an increase in the average balance of our open market funding portfolio, from R\$39,610.7 million in 2011 to R\$49,663.2 million in 2012 and (ii) our CDB and CDI portfolios which generated expenses of R\$866.8 million in 2012, compared to R\$943.3 million in 2011 despite a 38.0% increase in our average balance, from an average of R\$10,125.2 million in 2011 to an average of R\$13,973.9 million in 2012.

Borrowing and onlending. Our expenses from borrowing and onlending increased 12.3% from R\$517.6 million in 2011 to R\$581.3 million in 2012, mainly due to negative mark-to-market adjustments of our equity short positions traded on BM&FBOVESPA, which generated losses of R\$280.2 million in 2012, compared to a loss of R\$58.3 million in 2011, partially offset by a decrease in losses from exchange rate fluctuations on our borrowings denominated in currencies other than the *real*, which generated expenses of R\$264.7 million in 2012, compared to expenses of R\$422.6 million in 2011.

Allowance for loan losses and other receivables. Our expenses related to our allowance for loan losses and other receivables increased from R\$30.0 million in 2011 to R\$468.3 million in 2012, mainly due to an increase in our provisions for loan losses both in terms of amount and as a percentage of each of our loan portfolio and portfolio of other credit receivables. Our provisions for loan losses as of December 31, 2012 were R\$191.5 million, or 1.1% of our loan portfolio, including credit receivables and off-balance sheet items such as letters of credit and commitments, of R\$17,496.9 million, compared to provisions of R\$96.4 million, or 0.9% of our total loan portfolio, including credit receivables and off-balance sheet items such as letters of credit and commitments, of R\$11,252.6 million as of December 31, 2011. In addition, our provisions for loan losses for our portfolio of other credit receivables, which primarily consists of payroll loans and vehicle financing through our credit rights investment fund (FIDC), as of December 31, 2012, were R\$1,017.2 million, or 40.1% of our portfolio of other credit receivables of R\$2,537.0 million, compared to provisions of R\$670.4 million, or 21.7% of our portfolio of other credit receivables of R\$3,090.3 million as of December 31, 2011.

2011 versus 2010

Our net financial income increased 30.8%, from R\$1,146.7 million in 2010 to R\$1,500.4 million in 2011, mainly due to the general growth of our businesses, including as a result of our deployment of the proceeds from the issuance of US\$1.44 billion (R\$2.41 billion) of new equity capital to the members of the Consortium and the Participating Partners in December 2010, which enhanced our capital base.

Financial Income. Our financial income increased 69.2%, from R\$3,575.2 million in 2010 to R\$6,050.1 million in 2011. This increase was due to the following factors:

Loans. Our revenues from loans increased 189.0%, from R\$327.2 million in 2010 to R\$945.6 million in 2011, mainly due to: (i) a 91.0% increase in our loan portfolio, from an average balance of R\$2,714.1 million in 2010 to an average balance of R\$5,183.9 million in 2011, (ii) a 12.0% depreciation of the *real* against the U.S. dollar in 2011 which increased the real revenues generated by our credit operations backed by export receivables tied to U.S. dollars (our average balance of export receivables tied to U.S. dollars, which is included in our total loan portfolio, increased from an average balance of R\$570.9 million in 2010 to an average balance of R\$1,178.1 million in 2011), and (iii) higher CDI interest rates, which increased from an average of 9.71% in 2010 to an average of 11.60% in 2011.

Securities. Our revenues from securities increased 70.1%, from R\$2,698.3 million in 2010 to R\$4,589.1 million in 2011, mainly due to a 28.6% increase of our open market investments portfolio in Brazil, from an average balance of R\$13,323.3 million in 2010 to an average balance of R\$17,137.0 million in 2011, coupled with a 100.3% increase of our Brazilian government bonds portfolio, from an average balance of R\$5,074.3 million in 2010 to an average balance of R\$10,162.3 million in 2011. The increase in revenues from these securities was partially offset by the lower trading revenues from the trading of securities in the international markets.

Derivative Financial Instruments. Our results from derivative financial instruments decreased 53.2%, from a gain of R\$480.9 million in 2010 to a gain of R\$225.0 million in 2011. Our result in 2011 was mainly due to (i) the 12.0% depreciation of the real against the U.S. dollar in 2011, which resulted in a loss on our derivatives used to hedge our U.S. dollar exposure with respect to the shareholders' equity of our Cayman Islands branch, and (ii) losses with equity linked derivatives in 2011. Those losses were offset by a gain with derivatives linked to interest rates movements in 2011 and higher gains for energy contracts. In 2010, our gains were mainly due to the increased volume of derivative transactions entered into with our sales and trading activities, which generated stronger gains in foreign exchange contracts tied to U.S. dollars and CDI during that year, as well as gains from derivative transactions related to our global market strategies.

Foreign Exchange. Our foreign exchange results increased 262.4%, from R\$68.8 million in 2010 to R\$249.3 million in 2011, due to trading revenues as a result of the higher foreign exchange rate volatility in the foreign exchange markets in Brazil in 2011.

Mandatory Investments. We had revenue of R\$41.1 million from mandatory investments in 2011, as a result of a mandatory deposit placed with the Central Bank, compared to no revenue in 2010. Our mandatory deposits are required by the Central Bank as a function of our balance of time deposits, which has been growing consistently in the past years. In the second half of 2011, our total balance of time deposits for the first time exceeded the threshold above which we are required to place mandatory deposits with the Central Bank. The average balance of our mandatory deposits from July 1, 2011 to December 31, 2011 was R\$761.9 million, accumulating interest at a rate equivalent to the SELIC rate.

Financial Expenses. Our financial expenses increased 87.3%, from R\$2,428.5 million in 2010 to R\$4,549.6 million in 2011. This increase was due to the following factors:

Funding Operations. Our expenses from funding operations increased 62.8%, from R\$2,458.9 million in 2010 to R\$4,002.0 million in 2011, mainly as a result of an increase of 60.7% in the average balance of our CDB and CDI portfolios, from an average balance of R\$6,302.0 million in 2010 to an average balance of R\$10,125.2 million in 2011. Such increase in the average balance of our CDB and CDI portfolios generated interest expenses in the amount of R\$943.3 million in 2011, compared to R\$529.9 million in 2010. In addition, our expenses from funding operations increased during this period as a result of a 89.1% increase in the average balance of our open market funding portfolio, from an average balance of R\$20,949.6 million in 2010 to an average balance of R\$39,610.7 million in 2011. Such increase in our open market funding portfolio generated expenses in the amount of R\$2,645.9 million in 2011, compared to R\$1,842.9 million in 2010. We also issued R\$3.975 billion in subordinated notes in April 2011. Such subordinated notes have an average maturity of 7.8 years with no principal payments due until October 2016. Our subordinated notes generated a total of R\$200.4 million in interest expenses in 2011, which was consistent with the growth of our credit and securities portfolio described above. Our funding expenses were also affected by the SELIC rate, which increased from an average of 9.71% in 2010 to an average of 11.6% in 2011.

Borrowing and onlending. Our expenses from borrowing and onlending increased from revenue of R\$37.4 million in 2010 to an expense of R\$517.6 million in 2011, mainly due to (i) negative mark-to-market adjustments of our equity short position on BM&FBOVESPA, which generated losses of R\$58.3 million in 2011, compared to gains of R\$37.0 million in 2010, (ii) losses from exchange rate fluctuations on our borrowings denominated in currencies other than the real, which generated expenses of R\$422.6 million in 2011, compared to gains of R\$11.0 million in 2010 and (iii) interest paid to prime brokers which amounted to R\$31.2 million in 2011, compared to R\$7.7 million in 2010. The losses due to exchange rate

fluctuations were mainly the result of an (A) increase in our borrowings denominated in currencies other than the real in 2011, from an average balance of R\$250.1 million in 2010 to an average balance of R\$1,489.9 million in 2011, primarily due to our issuance under this Programme of US\$500 million in medium term notes in July 2011 and (B) the 12.0% depreciation of the real against the U.S. dollar during 2011.

Derivative Financial Instruments. See explanation of “Derivate Financial Instruments” under “Financial Income” above. Pursuant to Brazilian GAAP, when we incur a loss from our derivative financial instruments, we record such loss as a financial expense, and when we incur a gain from our derivate financial instruments, we record such gain as a financial income.

Allowance for loan losses and other receivables. Our expenses from the allowance for loan losses and other receivables increased from R\$7.0 million in 2010 to R\$30.0 million in 2011. Our provisions for loan losses and other receivables as of December 31, 2011 were R\$82.6 million, or 1.5% of our total loan portfolio of R\$5,409.2 million, compared to provisions of R\$81.2 million, or 1.8% of our total loan portfolio of R\$4,406.1 million as of December 31, 2010. In addition, we had credit write-offs in 2011 of R\$14.3 million (which did not result in additional expenses but reduced the amount of provisions in our balance sheet) coupled with provisions for losses on our off balance credit commitments of R\$10.5 million in 2011.

Other Operating Income (Expenses)

Our other operating income (expenses) are primarily affected by revenues from services rendered, compensation, headcount, levels of business activity and retention payment obligations.

The table below shows the composition of our other operating income (expenses) for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in R\$ millions)		
Income from services rendered.....	803.0	1,107.6	2,219.2
Personnel expenses	(227.7)	(359.7)	(605.7)
Other administrative expenses.....	(255.2)	(355.5)	(677.9)
Tax charges.....	(188.3)	(286.0)	(283.9)
Equity in the earnings of associates and jointly controlled entities.....	–	(3.5)	245.8
Other operating income	173.6	158.1	109.0
Other operating expenses	(29.8)	(86.6)	(552.1)
Other operating income (expenses).....	275.6	174.3	454.4

The table below shows the composition of our income from services rendered for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in R\$ millions)		
Management fee and performance premiums for investment funds and portfolio	343.4	511.4	1,329.4
Brokerage	107.7	107.7	168.0
Underwriting and advisory fees.....	330.0	415.8	584.1
Other services ⁽¹⁾	21.9	72.7	137.7
Income from services rendered	803.0	1,107.6	2,219.2

(1) Other services include fees and commissions in connection with credit instruments issued by us, such as loans and letters of credit guarantees, among others.

Our personnel expenses consist of salaries, benefits (such as health insurance) and other payments made to our personnel on our payroll, including retention expenses. These retention expenses consisted of (i) during 2009, payments made by us to our former partners and key employees who continued their involvement with us after our acquisition by UBS AG in 2006, and (ii) after January 2010, expenses incurred by us in connection with payments to be made in 2012 to key employees who continued their involvement with us following our acquisition by our controlling shareholder from UBS AG.

Our other administrative expenses include costs for occupancy and rental, communications, information services, travel, presentations, conferences, professional fees, depreciation and other general operating expenses.

Our tax charges include several different taxes. The financial income generated by Brazilian entities is subject to the Contribution for the Social Integration Program (*Programa de Integração Social*), or PIS, and the Contribution for Social Security (*Contribuição para o Financiamento da Seguridade Social*), or COFINS. In addition, our income generated from services rendered that do not involve financial transactions are subject to the payment of the Tax on Services of Any Nature (*Imposto Sobre Serviços de Qualquer Natureza*), or ISS, at rates that vary in each of the municipalities in which our Brazilian offices are located from 2% to 5%. The current tax rates of PIS and COFINS applicable to us are, respectively, 0.65% and 4.0% for Brazilian entities in our group that are deemed financial institutions and 1.65% and 7.6% for Brazilian entities in our group that are deemed non-financial institutions.

Our equity in the earnings of associates and jointly controlled entities consists of our proportional share of net income or net losses from (i) companies in which we hold a minority or a co-controlling equity stake, including Banco PanAmericano (which we acquired in May 2011), and (ii) any company in which we may have held interests, but had the intent to sell such interest within a one-year period from the applicable date to which the balance sheet relates.

Our other operating income consists of adjustments for inflation on judicial deposits, and the reversal of certain of our provisions, including for contingencies and employees' profit-sharing and retention plan expenses. The retention plan was established for the benefit of certain of our employees, many of them also Partners, in connection with our acquisition by UBS AG in 2006. In 2009, following the acquisition of Banco UBS Pactual by our controlling shareholder, a significant portion of the payments still due under our retention plan were ultimately waived by the majority of the UBS AG employees who were beneficiaries of the plan and became our Partners as a result of the acquisition. This waiver caused all such retention expenses to be cancelled. The remaining portion of the retention plan expired in February 2012, and we have no plans to reinstitute other retention plans going forward.

Our other operating expenses are primarily composed of (i) the effect of exchange rate variations on certain of our assets and liabilities denominated in U.S. dollars, including management and performance fees that we receive from our funds abroad, (ii) goodwill amortization, and (iii) the expenses incurred in connection with our decision to take advantage of the federal tax amnesty program created pursuant to Law No. 11,941/2009.

2012 versus 2011

Our other operating income (expenses) increased 160.7%, from R\$174.3 million in 2011 to R\$454.4 million in 2012. This increase was due to the following factors:

Income from services rendered. The table below shows the composition of our income from services rendered for the periods indicated:

	For the year ended December 31,				
	2011	% of total	2012	% of total	Variation (%)
(in R\$ millions, except percentages)					
Management fee and performance premium for investment funds and portfolio.....	511.4	46.2%	1,329.4	59.9%	160.0%
Brokerage	107.7	9.7%	168.0	7.6%	56.0%
Underwriting and advisory fees.....	415.8	37.5%	584.1	26.3%	40.5%
Other services ⁽¹⁾	72.7	6.6%	137.7	6.2%	89.4%
Income from services rendered.....	1,107.6	100.0%	2,219.2	100.0%	100.4%

(1) Other services include fees and commissions in connection with credit instruments issued by We, such as loans and letters of credit, among others.

Our income from services rendered increased 100.4%, from R\$1,107.6 million in 2011 to R\$2,219.2 million in 2012, due to the following factors:

Management fee and performance premium for investment funds and portfolio. Our income from management fee and performance premium for investment funds and portfolio increased 160.0%, from R\$511.4 million in 2011 to R\$1,329.4 million in 2012. This increase was mainly due to: (i) an increase of 42.1% in our AUM and AUA, from R\$120.1 billion in 2011 to R\$170.7 billion in 2012 (which includes R\$10.6 billion of AUM and AUA from the acquisition of Brazilian Capital in August 2012 and R\$8.5 billion from the acquisition of Celfin in November 2012) and the resulting positive impact on management fees and (ii) an increase in performance fees received from our funds, particularly our global hedge funds, due to strong performance as a result of improved market conditions.

Brokerage. Our brokerage fees increased 56.0%, from R\$107.7 million in 2011 to R\$168.0 million in 2012. This increase was mainly due to the transfer of our United States and Europe broker dealer operations from BTGI to us in September 2011 pursuant to the corporate restructuring of the BTG Pactual Group. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Corporate Restructuring.”

Underwriting and advisory fees. Our revenues from underwriting and advisory fees increased 40.5%, from R\$415.8 million in 2011 to R\$584.1 million in 2012. This increase was mainly due to (i) an increase in M&A advisory fees in 2012 compared to 2011 as a result of both an increase in the value of M&A transactions in which we participated, from R\$45.0 billion in 2011 to R\$51.7 billion in 2012, and the receipt of certain advisory fees in 2012 for material transactions that were announced in 2011 (as such fees are generally payable at settlement), (ii) an increase in the value of debt offerings in which we participated as underwriters, from R\$7.2 billion in 2011 to R\$11.2 billion in 2012, as a result of strong levels of activity

in the Brazilian debt market, as well as transactions that recorded higher than average fees and (iii) increased revenues from equity offerings, mainly due to an increase in the number and value of transactions in which we acted as underwriters, from R\$3.3 billion in 2011 to R\$3.6 billion in 2012.

Other services. Our revenue from other services increased 89.4%, from R\$72.7 million in 2011 to R\$137.7 million in 2012. This increase was mainly due to higher revenues from commissions related to credit transactions and credit facilities, including letters of credit, mainly as a result of our strategy to grow our loan portfolio.

Personnel expenses. Our personnel expenses increased 68.4% from R\$359.7 million in 2011 to R\$605.7 million in 2012. This increase in our personnel expenses was due to (i) two annual salary adjustments of 9.0% and 7.5%, respectively, in October 2011 and September 2012, benefitting our employees pursuant to the terms of union agreements that are adjusted annually, (ii) an increase in personnel expenses for our statutory officers and (iii) an increase in the number of our employees, from 1,311 in 2011 to 2,195 in 2012. This increase in the number of employees is associated with the organic growth of our business as well as from the addition of 599 new employees as a result of the acquisition of Celfin in November 2012.

Other administrative expenses. Our other administrative expenses increased 90.7%, from R\$355.5 million in 2011 to R\$677.9 million in 2012. This increase was mainly due to (i) expenses incurred in 2012 with respect to our initial public offering and bond issuances, (ii) higher expenses related to our new office in São Paulo, particularly rental expenses during the refurbishment period, (iii) higher information technology consulting fees in connection with software developments for our operational platform and (iv) additional expenses such as rental and travel, related to our international activities in London, New York and Hong Kong. Such activities were transferred to us in September 2011 as part of the corporate restructuring of the BTG Pactual Group. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Corporate Restructuring.”

Tax charges. Our tax charges remained relatively stable, from R\$286.0 million in 2011 to R\$283.9 million in 2012. While there was an increase in our revenues resulting from our overall business growth, a portion of that increase was generated by our Cayman Island branch (whose revenues are not taxable in Brazil) and also from higher gains from our equity in the earnings of associates and jointly controlled entities, which are also not subject to tax charges. Most of our tax charges are result from revenues generated in Brazil.

Equity in the earnings of associates and jointly controlled entities. Our equity in the earnings of associates and jointly controlled entities varied from a loss of R\$3.5 million in 2011 to a gain of R\$245.8 million in 2012. In 2012, our equity in the earnings of associates and jointly controlled entities was mainly attributable to our proportional share of net income of (i) BR Properties, in the amount of R\$383.0 million, net of the provision for devaluation in the amount of R\$402.0 million, (ii) Warehouse 1 Empreendimentos Imobiliários S.A., in the amount of R\$7.0 million, net of a loss related to goodwill impairment in the amount of R\$14.1 million and (iii) One Properties, in the amount of R\$15.4 million. Such equity in the earnings of associates and jointly controlled entities was partially offset by our proportional share of net losses from Banco PanAmericano in the amount of R\$160.4 million in 2012. In 2011, our equity in the earnings of associates and jointly controlled entities was mainly attributable to our proportional share of (i) net loss of Banco PanAmericano in the amount of R\$27.2 million and (ii) net income of One Properties, in the amount of R\$22.6 million.

Other operating income. Our other operating income decreased 31.1%, from R\$158.1 million in 2011 to R\$109.0 million in 2012. This decrease was mainly due to higher income recognized in 2011 resulting mainly from (i) gains on exchange rate variations on certain investments and receivables denominated in U.S. dollars, (ii) monetary variation on court deposits and others, affected by the SELIC rate, which decreased from 11.6% in 2011 to 8.4% in 2012 and (iii) the reversal of provisions for labor costs as a result of favorable evaluations of our outside legal advisors.

Other operating expenses. Our other operating expenses increased 537.5%, from R\$86.6 million in 2011 to R\$552.1 million in 2012 mainly due to (i) R\$394.3 million in goodwill amortization expenses incurred in 2012, which include (a) R\$69.5 million in amortization expenses from the acquisition of Coomex, which expenses were greater than in 2011 as a result of profits generated by Coomex since our acquisition, (b) R\$247.9 million in goodwill amortization from the acquisition of BFRE, related to profitability and recognition of deferred income tax asset due to a corporate restructuring, and (c) R\$77.0 million in extraordinary goodwill amortization, resulting from impairment on other investments; (ii) interest charges of R\$54.1 million incurred in 2012 compared to R\$33.4 million in 2011, in connection with the acquisition of certain investments, primarily Banco PanAmericano, which amount shall become payable on July 31, 2028; and (iii) other expense increases such as expenses from our broker dealer operations, including execution and commission fees.

2011 versus 2010

Our other operating income (expenses) decreased 36.8%, from R\$275.6 million in 2010 to R\$174.3 million in 2011. This increase was due to the following factors.

Income from services rendered. The table below shows the composition of our income from services rendered for the periods indicated:

For the year ended December 31,					
	2010	% of total	2011	% of total	Variation (%)
	(in R\$ millions, except percentages)				
Management fee and performance premium for investment funds and portfolio	343.4	42.8%	511.4	46.2%	48.9%
Brokerage	107.7	13.4%	107.7	9.7%	0.0%
Underwriting and advisory fees	330.0	41.1%	415.8	37.5%	26.0%
Other services ⁽¹⁾	21.9	2.7%	72.7	6.6%	232.0%
Income from services rendered	803.0	100%	1,107.6	100%	37.9%

(1) Other services include fees and commissions in connection with credit instruments issued by us, such as loans and letters of credit guarantees, among others.

Our income from services rendered increased 37.9%, from R\$803.0 million in 2010 to R\$1,107.6 million in 2011. This increase was due to the following factors:

Management fee and performance premium for investment funds and portfolio. Our income from management fee and performance premium for investment funds and portfolio increased 48.9%, from R\$343.4 million in 2010 to R\$511.4 million in 2011. This increase was mainly due to an increase in gross management and performance fees received from our funds, particularly our specialist funds (i.e., private equity and real estate funds) and our Brazilian fixed income and equities funds, all of which benefited from a growth of AUM and WUM coupled with increased returns in 2011. For additional information, see “—Adjusted Income Statement—2011 versus 2010—Asset Management” and “—Adjusted Income Statement (Unaudited)—2011 versus 2010—Wealth Management.”

Brokerage. Our brokerage fees remained stable, totaling R\$107.7 million in 2010 and 2011, mainly due to the stability of the average daily trading volume (ADTV) of equity securities on BM&FBOVESPA of R\$6.5 million in 2010 and 2011. Although the average daily contracts volume for derivatives on BM&FBOVESPA increased slightly, from R\$2.5 billion to R\$2.7 billion, this increase was offset by a decrease in volume of financial transactions in which we acted as broker.

Underwriting and advisory fees. Our revenues from underwriting and advisory fees increased 26.0%, from R\$330.0 million in 2010 to R\$415.8 million in 2011. The increase in revenues was mainly due

to (i) increased revenues from M&A advisory services fees in connection with material transactions announced in 2010 that closed in 2011 (as such fees are generally payable at closing) and (ii) higher than average fees due to a positive fee environment. This revenue increase was partially offset by a decrease in the value of equity offerings in which we acted as underwriter as a result of adverse market conditions, from R\$8.1 billion in 2010 to R\$3.3 billion in 2011.

Other services. Our revenue from other services increased 232.0%, from R\$21.9 million in 2010 to R\$72.7 million in 2011 due to higher revenues from commissions related to credit transactions and credit facilities, including letters of credit, with our clients in 2011 as compared to 2010, mainly as a result of our strategy to grow our loan portfolio.

Personnel expenses. Our personnel expenses increased 58.0%, from R\$227.7 million in 2010, of which R\$53.3 million corresponded to retention expenses, to R\$359.7 million in 2011, of which R\$32.5 million corresponded to retention expenses. The increase in our personnel expenses was due to an average annual salary adjustment of 9.0% for bank employees pursuant to the terms of the annual union agreement reached in September 2011, coupled with an increase in the number of employees, from 919 as of December 31, 2010 to 1,255 as of December 31, 2011. This increase in the number of employees is associated with the organic growth of our business as well as the transfer of 149 employees from BTGI to us in September 2011 as part of a corporate restructuring of the BTG Pactual Group pursuant to which BTGI's former subsidiaries responsible for conducting international activities in London, New York and Hong Kong were transferred to us. This increase was partially offset by the decrease in retention expenses due to the phasing out of our retention program, which ended February 2011.

Other administrative expenses. Our other administrative expenses increased 39.3%, from R\$255.2 million in 2010 to R\$355.5 million in 2011. This increase was mainly due to legal expenses, incurred only in 2011, of R\$18.0 million of legal expenses in connection with initiatives to implement changes to our corporate governance and organizational structure in anticipation of the private placement to the consortium and Participating Partners. Additionally, we experienced an increase in 2011 as compared to 2010 of (i) information technology consulting fees in connection with software developments for our operational platform in the amount of R\$11.2 million, (ii) R\$11.6 million in expenses for travel, presentations and conferences and (iii) R\$12.3 million in information technology other than consulting fees related to such software developments.

Tax charges. Our tax charges increased 51.9%, from R\$188.3 million in 2010 to R\$286.0 million in 2011. Most of our tax charges are applicable to revenues generated in Brazil. The increase in our tax charges was mainly due to an increase in our revenues subject to tax charges, resulting from our overall increase of revenues in 2011, as compared to 2010.

Equity in the earnings of associates and jointly controlled entities. Our equity in the earnings of associates and jointly controlled entities totaled a loss of R\$3.5 million in 2011. In 2011, our equity in the earnings of associates and jointly controlled entities was mainly attributable to our proportional share of the net losses incurred at Banco PanAmericano of R\$27.2 million, which was partially offset by our equity earnings of R\$22.6 million from our equity interest in One Properties. In 2010, we did not have any equity in the earnings of associates and jointly controlled entities.

Other operating income. Our other operating income decreased 8.9%, from R\$173.6 million in 2010 to R\$158.1 million in 2011. In 2010, our other operating income was mainly composed of (i) the reversal of contingency provisions of R\$99.0 million due to the favorable outcome of commercial claims to which we were a party, and (ii) the reversal of provisions for labor costs of R\$31.7 million as a result of favorable evaluations of our outside legal advisors. In 2011, the other operating income was mainly composed of (i) R\$70.8 million due to a monetary restatement of legal deposits, and (ii) reversal of bonuses in the amount of R\$20.6 million.

Other operating expenses. Our other operating expenses increased 190.6%, from R\$29.8 million in 2010 to R\$86.6 million in 2011. This increase was mainly due to (i) the amortization of goodwill from our acquisition of Coomex in October 2010, which generated amortization charges of R\$8.4 million in 2010 and R\$31.8 million in 2011. See “—Recent Acquisitions, Divestitures and Corporate Restructurings

Affecting Our Results of Operations—Acquisition of Coomex Empresa Operadora do Mercado Energético Ltda.” and (ii) interest charges of R\$30.9 million on R\$450.0 million owed in connection with the acquisition of Banco PanAmericano, which is payable until July 31, 2018. See “—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE.”

Operating Income

As a result of the foregoing, our operating income (i) increased 124.5%, from R\$1,674.9 million in 2011 to R\$3,760.0 million in 2012; and (ii) increased 17.8%, from R\$1,422.3 million in 2010 to R\$1,674.9 million in 2011.

Non-operating Income (Expense)

Our non-operating income (expense) consists of income (expenses) resulting from non-recurring items or transactions not related to our core business.

2012 versus 2011

Our non-operating income (expense) varied from a gain of R\$9.2 million in 2011 to a loss of R\$12.0 million in 2012. Our non-operating income (expense) in 2011 was primarily composed of gains from the sale of our remaining ownership interests in CETIP in April 2011 in the amount of R\$8.1 million. Our non-operating expense in 2012 consisted of losses from the derecognition of property and equipment in use in the amount of R\$26.8 million, which was partially offset by gains from the sale of a portion of our equity interest in BR Properties in the amount of R\$14.8 million.

2011 versus 2010

Our non-operating income (expense) varied from an expense of R\$0.4 million in 2010 to income of R\$9.2 million in 2011 due to gains in 2011 related to the sale of our remaining ownership interests in CETIP in the amount of R\$8.1 million.

Income Before Taxation and Profit Sharing

As a result of the foregoing, our income before taxation and profit sharing (i) increased 122.6%, from R\$1,684.1 million in 2011 to R\$3,748.0 million in 2012; and (ii) increased 18.4%, from R\$1,421.9 million in 2010 to R\$1,684.1 million in 2011.

Income Tax and Social Contribution

Our income tax and social contribution in Brazil are recorded under current or deferred liabilities. Our effective rate was 29.1%, 22.0% and 39.3% (excluding deferred tax assets from goodwill) in 2012, 2011 and 2010, respectively. See “—Critical Accounting Policies—Deferred Income Tax and Social Contribution.”

2012 versus 2011

Our income tax and social contribution in Brazil varied from income of R\$199.2 million in 2011 to an expense of R\$727.5 million in 2012. This variation was mainly due to the recognition of tax credits of R\$481.4 million in December 2011, resulting from our merger with the investment vehicle used by the members of the Consortium to acquire our equity interests in December 2010 (see “—Critical Accounting Policies—Deferred Income Tax and Social Contribution”). This increase was partially offset by (i) a 38.0% increase of interest on equity (which is a substitute dividend payment that can be treated as a tax deductible expense), from R\$319.0 million in 2011 to R\$440.0 million in 2012, and (ii) increased gains on equity in our associates, which are not subject to income tax charges.

2011 versus 2010

Our income tax and social contribution in Brazil varied from an expense of R\$381.6 million in 2010 to a revenue of R\$199.2 million in 2011. This variation was mainly due to (i) a decrease of income tax expenses as a result of payment of interest on equity in the amount of R\$319 million in 2011, and (ii) the recognition of tax credits of R\$481.4 million in December 2011 resulting from our merger with the investment vehicle used by the members of the Consortium to acquire our equity interests in December 2010. Such entity had previously recorded goodwill of R\$1,203.4 million in connection with such acquisition. See “—Critical Accounting Policies—Deferred Income Tax and Social Contribution.”

Statutory Profit Sharing

Statutory profit sharing consists mainly of the discretionary cash bonuses that we distribute to all of our employees, and that are calculated as a percentage of our annual revenues, net of costs and expenses incurred. Our bonus expenses are directly correlated to, among other factors, our overall performance, the performance of our individual business units and our cost efficiency. We determine bonuses in accordance with our profit-sharing program and have calculated such bonuses consistently for the three years ended December 31, 2012, subject only to slight variations.

2012 versus 2011

Our statutory profit sharing increased 133.8%, from R\$401.2 million in 2011 to R\$938.2 million in 2012. As explained above, our bonus pool is calculated as a percentage of annual revenues, net of costs and expenses and, accordingly, this increase is mainly due to the fact that our revenues growth outpaced the growth in our expenses in the period.

2011 versus 2010

Our statutory profit sharing increased 74.9%, from R\$229.4 million in 2010 to R\$401.2 million in 2011. The increase is mainly due to the fact that our revenues growth outpaced the growth in our expenses in the period.

Non-Controlling Interest

Non-controlling interest consists mainly of the equity not attributable, directly or indirectly, to us, from our subsidiaries BW Properties S.A., Recovery do Brasil Consultoria S.A. and certain investment funds consolidated into our financial statements, including FIP Saúde and FIDC NPL.

2012 versus 2011

Our non-controlling interest totaled R\$21.1 million in 2012, mainly attributable to Recovery do Brasil Consultoria S.A, BW Properties S.A. and results from investments funds consolidated into our financial statements, and R\$5.0 million in 2011 attributable to BW Properties S.A. and Recovery do Brasil Consultoria S.A.

2011 versus 2010

Our non-controlling interest totaled R\$5.0 million in 2011. In 2011, our non-controlling interest was mainly attributable to BW Properties S.A. (R\$1.8 million) and Recovery do Brasil Consultoria S.A. (R\$3.0 million). In 2010, we did not record any non-controlling interest.

Net Income

As a result of the foregoing, our net income (i) increased 39.5%, from R\$1,477.1 million in 2011 to R\$2,061.2 million in 2012; and (ii) increased 82.2%, from R\$810.9 million in 2010 to R\$1,477.1 million in 2011.

Interest on Equity

Interest on equity is a substitute dividend payment, which can be treated as a tax deductible expense. It is determined on an annual basis, subject to a 15% withholding tax, and is limited to a maximum of the TJLP as applicable to our net equity. The amount of interest on our shareholders' equity is calculated to minimize income tax expenses, by substituting non-tax-deductible dividends payments for tax-deductible interest on equity payments. Although interest on equity reduces income taxes, it is not recorded as an expense and, therefore, is not computed as part of our net income. Interest on equity is presented on our income statement below the net income line item. As a result of such substitution, we are able to reduce our income tax and social contribution expense for the year by decreasing our taxable income.

Our interest on equity totaled R\$440.0 million in 2012, R\$319.0 million in 2011 and R\$15.4 million in 2010. Our interest on equity is presented in our statement of shareholders' equity and is reflected in our income statement, both of which are included in the financial statements included in this Offering Memorandum.

Adjusted Income Statement (Unaudited)

The following table sets forth our adjusted income statement, which was not prepared in accordance with Brazilian GAAP and materially differs from our income statement:

	For the year ended December 31,		
	2010	2011	2012
	(Unaudited - in R\$ millions)		
Investment banking.....	344.0	338.3	448.0
Corporate lending	251.1	366.5	563.6
Sales and trading.....	637.8	999.9	1,516.6
Asset management	298.4	443.2	1,190.2
Wealth management	103.5	144.5	201.7
PanAmericano.....	0.0	(52.0)	(244.5)
Principal investments	201.6	(111.2)	1,356.9
Interest and other	147.5	518.1	587.2
Total revenues, net of direct expenses allocation.....	1,983.8	2,647.1	5,619.8
Bonus	(232.0)	(479.6)	(1,168.6)
Retention expenses	(53.3)	(32.5)	(5.9)
Salaries and benefits	(159.8)	(213.2)	(326.0)
Administrative and others	(207.9)	(293.1)	(537.1)
Goodwill amortization	(8.4)	(31.2)	(467.4)
Tax charges, other than income tax.....	(129.5)	(177.0)	(241.4)
Total operating expenses	(791.0)	(1,226.7)	(2,746.4)
Income before taxes	1,192.8	1,420.4	2,873.4
Income tax and social contribution revenue (expense)	(381.9)	56.6	(812.2)
Net income	810.9	1,477.0	2,061.2

We are a financial services group that provides a wide range of services in investment banking, corporate lending, sales and trading, asset management, wealth management, commercial banking through our interest in Banco PanAmericano, and principal investments, and with a balanced and diversified set of revenue streams.

Our revenues from investment banking activities consist of financial advisory and underwriting fees directly based on the number and size of the transactions in which we participate.

Our revenues from corporate lending consist of interest we charge on our loans net of (i) provisions for loan losses and (ii) the opportunity cost for funding the corporate lending inventory.

Our revenues from sales and trading include revenues from FICC sales and trading and from equity sales and trading. Our FICC sales and trading revenues consist mainly of (i) fees and commissions

charged for products and services that are linked to fixed income, currency and commodities instruments and securities that we offer to our clients, and (ii) gains or losses from our trading in such instruments and securities, which are net of the opportunity cost for funding the sales and trading inventory. Our revenues from equity sales and trading consist mainly of fees and commissions charged for products and services linked to equity securities that we offer to our clients, as well as gains or losses from our trading in these securities, which are net of the cost for funding the sales and trading inventory.

Our revenues from asset management consist of management and performance fees. Management fees are generally calculated as a percentage of asset value (that may vary by asset class), committed capital, invested capital or total gross acquisition cost with respect to the funds and investment vehicles that we manage. Asset value is affected by investment performance, inflows and redemptions. In some cases, we may also receive performance fees when returns exceed specified benchmarks or other performance targets; however, these performance fees are only recognized when the specific performance period ends and is no longer subject to adjustment. Substantially all AUM are marked-to-market on a daily basis. In addition, we receive fixed or variable fees for fund administration services to third parties.

Our revenues from wealth management consist of a portion of management and performance fees originated by our private wealth clients as well as spreads and commissions with respect to brokerage and other FICC and equities products we sell to our private wealth clients.

Revenues from PanAmericano consist of the equity pick-up from our investment stake of 34.06% in Banco PanAmericano. Banco PanAmericano generates revenues from its core commercial banking activities in four areas of expertise. In the consumer finance area, Banco PanAmericano generates revenues from a credit portfolio composed mainly of vehicle financing, consumer loans, personal loans, payroll deduction loans and credit cards (including prepaid credit cards and regular credit cards). In the corporate banking area, revenues arise from a portfolio of loans and commercial leasing transactions to middle-sized companies, while revenues in the real estate financing area derive from the portfolio of residential and commercial mortgage financing instruments. In the insurance area, revenues are derived from the insurance policies covering payment capacity of individual clients, including in the event of unemployment and personal accidents, and life insurance.

Our revenues from principal investments are composed of revenues from the global markets and merchant banking and real estate segments. Revenues from global markets consist of the returns of our proprietary investments in a diversified range of financial instruments across multiple asset classes and geographic regions. Our global markets teams are located in São Paulo, Rio de Janeiro, New York, London and Hong Kong. These teams focus on both developed and emerging markets, allocating capital across various underlying strategies that include a mix of emerging markets and global macro themes. Financial instruments held under this category are marked-to-market and generate gains or losses on a daily basis. Revenues from merchant banking investments consists mainly of the returns from capital gains on the sale, dividends received, or equity pick-up from our shares of the profits, of our stakes held directly or through investment vehicles in the portfolio companies in our merchant banking portfolio (none of our portfolio companies which are consolidated on our financial statements). The most relevant merchant banking investments of the BTG Pactual Group, however, are typically conducted through BTGI, not us. Revenues from real estate investments consists mainly of returns of our investments in real estate funds, and of capital gains on the sale, and dividends received or equity pick-up from our shares of the profits, of our proprietary, non-controlling stakes held in the investment vehicles in our real estate portfolio. Revenues from our principal investments are presented net of funding costs, including the cost of funding our net equity, and of trading losses, including losses from derivatives and from foreign exchange variation. Revenues are also reduced by associated transaction costs, and by management and performance fees paid to asset managers and other fund service providers, including our own asset management unit.

Our revenues recorded under “interest and other” include the interest on our capital, which is the internal opportunity cost for remunerating our net equity, typically determined based on the CDI rate. The interest on our capital, credited to “interest and other,” is in turn deducted as a funding cost directly from our business units’ revenues. The units primarily affected by such deductions are those which carry larger inventories of financial instruments, i.e., sales and trading, commercial lending and principal investments units, as their results are presented in our adjusted income statement net of the interest on our capital, as

well as all other costs for obtaining external funding to finance their portfolios. We believe that our discipline of charging internal and external funding costs directly to these business units is one of the most critical components of our risk and liquidity management disciplines, as it allows us to more appropriately monitor and evaluate the financial performance of our various units. Interest and other revenues also include gains and losses resulting from the exchange rate variation, and the corresponding results from hedging (as applicable), of certain assets and liabilities denominated in currencies other than the real, including our investments in foreign subsidiaries.

For additional information on the revenues or expenses recorded in our adjusted income statement, see “—Our Unaudited Adjusted Income Statement.”

2012 versus 2011

The following table sets forth our revenue composition and evolution by business unit for the periods indicated:

	For the year ended December 31,				
	2011	% of total	2012	% of total	Variation (%)
(Unaudited - in R\$ millions, except percentages)					
Investment banking.....	338.3	12.8%	448.0	8.0%	32.4%
Corporate lending	366.5	13.8%	563.6	10.0%	53.8%
Sales and trading.....	999.9	37.8%	1,516.6	27.0%	51.7%
Asset management	443.2	16.7%	1,190.2	21.2%	168.5%
Wealth management	144.5	5.5%	201.7	3.6%	39.6%
PanAmericano.....	(52.0)	(2.0)%	(244.5)	(4.4)%	370.2%
Principal investments	(111.2)	(4.2)%	1,356.9	24.1%	1320.2%
Interest and other	518.1	19.6%	587.2	10.5%	13.3%
Total revenues	<u>2,647.1</u>	<u>100.0%</u>	<u>5,619.8</u>	<u>100.0%</u>	<u>112.3%</u>

Our total revenues, net of direct expenses allocation, increased 112.3%, from R\$2,647.1 million in 2011 to R\$5,619.8 million in 2012. This increase was mainly due to the following factors:

Investment Banking: Our revenues from investment banking activities increased 32.4%, from R\$338.3 million in 2011 to R\$448.0 million in 2012.

The increase in revenues was mainly due to (i) a 14.9% increase in revenues from M&A advisory services as a result of an increase in the value of the transactions in which we participated, from R\$45.0 billion in 2011 to R\$51.7 billion in 2012, plus the receipt of fees in 2012 for material transactions that were announced in 2011 (as such fees are generally payable at settlement), (ii) a 135.9% increase in revenues from debt offerings in which we participated as underwriters due to an increase in value of transactions in which we participated, from R\$7.2 billion in 2011 to R\$11.2 billion in 2012, as a result of strong levels of activity in the Brazilian debt market, as well as transactions that recorded higher than average fees and (iii) a 24.7% increase in revenues from equity offerings, mainly due to an increase in the number and value of transactions in which we acted as underwriters, from R\$3.3 billion in 2011 to R\$3.6 in 2012.

The following table provides a breakdown of our investment banking activities for the periods indicated:

	For the year ended December 31,	
	2011	2012
	(number of transactions)⁽¹⁾	
Equity capital markets.....	12	16
Debt capital markets	44	48
M&A.....	51	74
Total number of transactions.....	107	138
	(in R\$ billions)⁽¹⁾	
Equity capital markets.....	3.3	3.6
Debt capital markets	7.2	11.2
M&A ⁽²⁾	45.0	51.7
Total.....	55.5	66.5

Sources: Dealogic for equity capital markets and M&A and ANBIMA for debt capital markets

- (1) While equity and debt capital markets figures consider closed transactions, M&A figures represents announced deals, which typically generate fees upon their subsequent closing.
- (2) M&A market data for previous quarters may vary because: (i) deal inclusions might occur with delay, in any moment of the year, (ii) canceled transactions will be withdrawn from the rank, (iii) transaction value revision and (iv) transaction enterprise values might change due to debt inclusion, which usually occurs some weeks after the transaction is announced (mainly for non-listed targets)

Corporate Lending: Revenues from corporate lending increased 53.8%, from R\$366.5 million in 2011 to R\$563.6 million in 2012. This increase was mainly due to (i) an increase of 82.4% in the average balance of our broader credit portfolio composed mainly of loans, receivables, advances in foreign exchange contracts, securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), from an average balance of R\$15,997.6 million in 2011 to an average balance of R\$23,604 million in 2012, which was partially offset by an increase in allowance for loan losses. In addition, revenues from corporate lending were positively impacted in 2011 by gains from a sale of a mortgage credit portfolio and a nonperforming loan portfolio.

Sales and Trading: Revenues from sales and trading increased 51.7%, from R\$999.9 million in 2011 to R\$1,516.6 million in 2012. This increase was mainly due to (i) higher revenues from our rates activities, mainly due to an increase in trading volume with clients and market counterparties as well as the convergence of interest rates in Brazil and the resulting positive impact on our inventory of assets, (ii) strong levels of activity from our foreign exchange desk, which led to increased revenues, (iii) higher revenues from equities trading following the recovery of the BM&FBOVESPA index, which increased 7.4% in 2012 compared to a decrease of 24.5% in 2011 and (iv) higher revenues from brokerage fees and equity-linked derivative instruments. These gains were partially offset by lower revenues from our energy trading desk.

Asset Management: Revenues from asset management operations increased 168.5%, from R\$443.2 million in 2011 to R\$1,190.2 million in 2012. This increase was mainly due to (i) a 13.7% increase in our combined AUM and AUA, from R\$120.1 billion in 2011 to R\$170.7 billion in 2012 (which includes R\$10.6 billion of AUM and AUA from the acquisition of Brazilian Capital in August 2012 and R\$8.5 billion from the acquisition of Celfin in November 2012) and the resulting positive impact on management fees, reaching R\$479.1 million in 2012 compared to R\$301.5 million in 2011 and (ii) an increase in performance fees, particularly from our global hedge funds, reaching R\$711.1 million in 2012 compared to R\$141.7 million 2011. In 2011, net inflows for our asset management unit amounted to R\$17.8 billion compared to R\$18.4 billion in 2012.

Wealth Management: Revenues from wealth management operations increased 39.6%, from R\$144.5 million in 2011 to R\$201.7 million in 2012. This increase was mainly due to (i) a 60% growth in wealth under management, from R\$38.9 billion as of December 31, 2011, with net inflow of R\$7.9 billion,

to R\$62.2 billion as of December 31, 2012 (which includes R\$11.5 billion wealth under management from the Celfin acquisition in November), with a net inflow of R\$8.4 billion and (ii) a higher volume of client trading activities, generating higher brokerage and trading spread revenues.

PanAmericano: We recorded a loss of R\$244.5 million from our investment in Banco PanAmericano in 2012 compared to a loss of R\$52.2 million in 2011. This variation was mainly due to (i) a R\$160.4 million loss from our equity pick-up of Banco PanAmericano's results in 2012 compared to a loss of R\$21.0 million 2011 and (ii) an increase in our funding expenses charged to this investment, from R\$31.2 million in 2011 to R\$87.8 million in 2012. In addition, our funding expenses related to PanAmericano have increased following our R\$495.4 million additional capital contribution to Banco PanAmericano 2012. See “—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE.”

Principal Investments: Revenues from principal investments varied from a loss of R\$111.2 million in 2011 to a gain of R\$1,356.9 million in 2012. This variation was mainly due to (i) higher gains from our global markets activities in most of our strategies, from a loss of R\$92.6 million in 2011 to a gain of R\$1.1 billion in 2012, as a result of overall improvements in market conditions (particularly, lower interest rates in the United States, which positively impacted the U.S. mortgage market and the European central bank intervention, which benefited our emerging markets and global credits strategies) and (ii) higher gains from our real estate investments, from a loss of R\$39.8 million in 2011 to a gain of R\$245.1 million in 2012, mainly due to our proportional share of the profits of BR Properties in the amount of R\$761.7 million, net of the provision for devaluation in the amount of R\$406.5 million.

Interest and Other: Our revenues recorded under “interest and other” increased 13.3%, from R\$518.1 million in 2011 to R\$587.2 million in 2012. This increase was mainly due to (i) an increase in interest on our own capital from R\$418.9 million in 2011 to R\$545.5 million in 2012, resulting from our capital increase in connection with our initial public offering on April 30, 2012 and (ii) the temporary effect of negative mark-to-market accounting of economic hedging instruments in 2011, compared to a positive mark-to-market in 2012.

The following table shows our costs and expenses composition and evolution for the periods indicated:

For the year ended December 31,					
	2011	% of total	2012	% of total	Variation (%)
(Unaudited—in R\$ millions)					
Bonus	(479.6)	39.1%	(1,168.6)	42.5%	143.7%
Retention expenses	(32.5)	2.7%	(5.9)	0.2%	(82.0)%
Salaries and benefits	(213.2)	17.4%	(326.0)	11.9%	52.9%
Administrative and others	(293.1)	23.9%	(537.1)	19.6%	83.2%
Goodwill amortization	(31.2)	2.5%	(467.4)	17.0%	1399.7%
Tax charges, other than income tax	(177.0)	14.4%	(241.4)	8.8%	36.4%
Total operating expenses	(1,226.7)	100.0%	(2,746.4)	100.0%	123.9%

Our total operating expenses increased 123.9%, from R\$1,226.7 million in 2011 to R\$2,746.4 million in 2012.

This increase was mainly due to the following factors:

Bonus: Our bonus expenses increased 143.7%, from R\$479.6 million in 2011 to R\$1,168.6 million in 2012. Our bonuses are determined in accordance with our profit-sharing program, and are calculated as a percentage of our adjusted net revenue. Our adjusted net revenue consists of our total revenues from business units (excluding interest and other revenues) deducted by salaries and benefits and administrative and other expenses and goodwill amortization. Accordingly, the increase of our bonus

expenses in 2012 as compared with 2011 was due to a higher increase in revenues from business units partially offset by higher expenses.

Retention Expenses: Our retention expenses decreased 82.0%, from R\$32.5 million in 2011 to R\$5.9 million in 2012. This decrease in our retention expenses was due to the phasing-out of our retention program, which was terminated in February 2012.

Salaries and Benefits: Our expenses related to salaries and benefits increased 52.9%, from R\$213.2 million in 2011 to R\$326.0 million in 2012. This increase was mainly due to (i) two annual salary adjustments of 9.0% and 7.5%, respectively, in October 2011 and September 2012, benefitting our employees pursuant to the terms of union agreements, which are adjusted annually and (ii) an increase in total number of employees, from 1,311 in 2011 to 2,195 in 2012. This increase in the number of employees is associated with the organic growth of our business as well as from the addition of 599 new employees as a result of the acquisition of Celfin in November 2012.

Administrative and Others: Our administrative and others expenses increased 83.2%, from R\$293.1 million in 2011 to R\$537.1 million in 2012. This increase was mainly due to (i) expenses incurred in 2012 with respect to our initial public offering and bond issuances, (ii) higher expenses related to our new office in São Paulo, particularly rental expenses during the refurbishment period and (iii) higher information technology consulting fees in connection with software developments for our operational platform.

Goodwill Amortization: Our goodwill amortization expenses increased from R\$31.2 million in 2011 to R\$467.4 million in 2012. Our goodwill amortization expenses in 2012 were mostly associated with the extraordinary amortization of goodwill from our investments in Brazilian Capital in the amount of R\$247.7, coupled with the amortization of goodwill in the amount of R\$69.5 million related to our acquisition of Coomex, R\$21.6 million related to our acquisition of BW Properties and R\$104.2 million related to our other investments. In addition, as a result of our acquisition of Celfin, since November 2012, we amortize goodwill on a monthly basis following such acquisition, totaling R\$24.2 million in 2012.

Tax charges, other than income tax: Our tax charges, other than income tax increased 36.4%, from R\$177.0 million in 2011 to R\$241.4 million in 2012. This increase was mainly due to the 112.3% increase in our revenues, which was partially offset by changes in our revenue mix resulting in a lower portion of our revenues being subject to tax charges in 2012. Our tax charges, other than income tax are composed mainly of PIS/COFINS of 4.65% and ISS, which varies from 2.0% to 5.0% depending on the services provided and locations.

Income Before Taxes: As a result of the foregoing, our income before taxes increased 102.3%, from R\$1,420.4 million in 2011 to R\$2,873.4 million in 2012.

Income and Social Contribution Taxes: Our income and social contribution taxes in Brazil correspond to current and deferred taxes. Our income and social contribution taxes in Brazil varied from a gain of R\$56.6 million in 2011 to a loss of R\$812.2 million in 2012. This variation was mainly due to our recognition of tax credits of R\$481.4 million in December 2011, which was partially offset by (i) higher interest on equity (which is a substitute dividend payment that can be treated as a tax deductible expense), from R\$319.0 million in 2011 to R\$440 million in 2012 and (ii) changes in our revenue mix, with proportionally more revenues from principal investments in 2012 compared to 2011, which are in part not subject to corporate taxes.

Net Income: As a result of the foregoing, our net income increased 39.6%, from R\$1,477.0 million in 2011 to R\$2,061.2 million in 2012, representing a net margin of 55.8% and 36.7% respectively.

2011 versus 2010

The following table shows our revenue composition and evolution by business unit for the periods indicated:

For the year ended December 31,					
	2010	% of total	2011	% of total	Variation (%)
(Unaudited - in R\$ millions, except percentages)					
Investment banking	344.0	17.3 %	338.3	12.8%	1.7%
Corporate lending	251.1	12.7%	366.5	13.8%	46.0%
Sales and trading	637.8	32.2%	999.9	37.8%	56.8%
Asset management	298.4	15.0%	443.2	16.7%	48.5%
Wealth management	103.5	5.2%	144.5	5.5%	39.6%
PanAmericano	—	0.0%	(52.0)	(2.0)%	—
Principal investments	201.6	10.2%	(111.2)	(4.2)%	(155.2)%
Interest and other	147.4	7.4%	518.1	19.6%	251.5%
Total revenues	1,983.8	100.0%	2,647.1	100.0%	33.4%

Our total revenues increased 33.4%, from R\$1,983.8 million in 2010 to R\$2,647.1 million in 2011. This increase was mainly due to the following factors:

Investment Banking: Our revenues from investment banking activities slightly decreased 1.7%, from R\$344.0 million in 2010 to R\$338.3 million in 2011. The decrease in revenues was mainly due to (i) a decrease in the value of equity offerings in which we acted as underwriters as a result of adverse market conditions, from R\$8.1 billion in 2010 to R\$3.3 billion in 2011 and (ii) a decrease in revenues from debt offerings in which we acted as underwriters. Although the volume of debt offerings in which we acted as underwriters increased during 2011, we did not record a corresponding gain for 2011 due to the fact that some of these transactions were executed by an offshore subsidiary within the BTG Pactual Group, which, until the corporate restructuring of the BTG Pactual Group in September 2011, was a subsidiary of BTGI. This decrease was partially offset by increased revenues from M&A advisory services fees in connection with material transactions announced in 2010 that settled in the three months ended March 31, 2011 (as such fees are generally due at closing) as well as by transactions that recorded higher than average fees.

The following table provides a breakdown of our investment banking activities by number and volume of transactions for the periods indicated:

	For the year ended December 31,	
	2010	2011
	(number of transactions)⁽¹⁾	
Equity capital markets ⁽¹⁾	15	12
Debt capital markets ⁽¹⁾	23	44
M&A	45	51
Total number of transactions	83	107
	(in R\$ billions)⁽¹⁾	
Equity capital markets	8.1	3.3
Debt capital markets	4.1	7.2
M&A ⁽²⁾	57.9	45.0
Total	210.9	55.5

Sources: Dealogic for equity capital markets and M&A and ANBIMA for debt capital markets

- (1) While equity and debt capital markets figures consider closed transactions, M&A figures consider announced deals, which typically generate fees upon their subsequent closing.
- (2) M&A market data for previous quarters may vary because: (i) deal inclusions might occur with delay, in any moment of the year, (ii) canceled transactions will be withdrawn from the rank, (iii) transaction value revision and (iv) transaction enterprise values might change due to debt inclusion, which usually occurs some weeks after the transaction is announced (mainly for non-listed targets)

Corporate Lending: Revenues from corporate lending increased 46.0%, from R\$251.1 million in 2010 to R\$366.5 million in 2011. This increase was mainly due to (i) an increase of 185.3% in the average balance of our broader credit portfolio composed mainly of loans, receivables, advances in foreign exchange contracts, securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), from an average balance of R\$5,019.7 million in 2010 to an average balance of R\$15,997.6 million in 2011, (ii) the positive impact of our US\$1.44 billion capitalization completed in December 2010, which increased our leverage capacity. This revenues increase was partially offset by (i) the fact that the majority of our credit portfolio increase was directed to high grade clients, which pay lower yields, and (ii) an increase in allowance for loan losses, due to reversals occurred in 2010 due to the improvement of the global economic scenario after the financial crisis at the end of 2009, particularly in Brazil. See “—Our Income Statement—Net Financial Income—2011 versus 2010—Financial Expenses—Allowance for loan losses and other receivables.”

Sales and Trading: Revenues from sales and trading increased 56.8%, from R\$637.8 million in 2010 to R\$999.9 million in 2011. This increase was mainly due to an increase in revenues from interest rates and market-making activities in 2011 as a result of our strategies intended to anticipate interest rates movements in Brazil. In addition, we generated higher revenues from our energy trading desk. In 2010, we only recognized revenues from our energy trading desk from October (after we acquired Coomex) through December. Our revenues in 2011 from our energy trading desk also reflect certain synergies achieved as a result of the integration of this desk with our other business units. This increase was partially offset by a decrease in revenues from our equity sales and trading, mainly due to adverse market conditions fostered by the eurozone crisis, higher inflation expectations in Brazil and the slowdown of Brazilian economy, which led stock prices to decrease significantly. This scenario of higher volatility in prices reduced investment flows for the equity markets and adversely impacted our equity cash strategies. Revenues resulting from brokerage fees and equity-linked derivative instruments remained relatively stable.

Asset Management: Our revenues from our asset management operations increased 48.5%, from R\$298.4 million in 2010 to R\$443.2 million in 2011. This increase was mainly due to (i) an increase in our AUM of 31.3%, from R\$91.5 billion as of December 31, 2010, with net annual inflows of R\$11.6 billion, to R\$120.1 billion as of December 31, 2011, with net annual inflows of R\$17.8 billion, and the resulting

positive impact on management fees in all our funds, reaching R\$301.5 million in 2011 compared to R\$184.2 million in 2010 and (ii) an increase in performance fees, mainly from our fixed income, equities and specialists funds (private equity and real estate funds), reaching R\$141.7 million in 2011 compared to R\$114.2 million in 2010.

Wealth Management: Our revenues from wealth management operations increased 39.6%, from R\$103.5 million in 2010 to R\$144.5 million in 2011. This increase was mainly due to the 24.6% growth in wealth under management, from R\$31.2 billion as of December 31, 2010, with net inflow of R\$8.3 billion, to R\$38.9 billion as of December 31, 2011, with net inflow of R\$7.9 billion. We were also positively impacted by (i) a shift in investment funds products by our clients, with net new money flowing to products with higher return on assets, especially in the offshore space, (ii) concentrated sales of proprietary fixed income domestic securities where the return on assets is also higher for the unit, (iii) higher fees on an increased number and volume of credit transactions; and (iv) higher financial advisory (M&A) fees.

PanAmericano: PanAmericano recorded an expense of approximately R\$52.0 million in 2011, which consisted of our equity pick-up of Banco PanAmericano and funding expenses allocated to this business unit. We acquired our co-controlling interest in Banco PanAmericano in May 2011, and accordingly had no results from Banco PanAmericano in 2010.

Principal Investments: Revenues from principal investments decreased 155.2%, from a revenue of R\$201.6 million in 2010 to an expense of R\$111.2 million in 2011. This decrease was mainly due to decreases in our global markets business, in which our global credit fixed income positions, mainly composed of corporate bonds and mortgage instruments, underperformed in a period of overall uncertainty in the global macroeconomic scenarios, which lead to higher volatility and overall widening of credit spreads, which was partially offset by gains from our new reinsurance business. While our results from merchant banking remained relatively stable in 2011, we recorded losses in connection with our real estate activities, due to the higher funding expenses allocation as a result of the expansion of our portfolio of real estate investments that occurred during 2011.

Interest and Other: Our revenues recorded under “interest and other” increased 251.5%, from R\$147.4 million in 2010 to R\$518.1 million in 2011. This increase was mainly due to an increase in interest earned on our own capital, from R\$171.6 million in 2010 to R\$418.9 million in 2011, resulting from our US\$1.44 billion capital increase in December 2010. Also, we recorded positive results from the implementation in 2011 of the hedging of our net investments in foreign subsidiaries denominated in U.S. dollar.

The following table shows our costs and expenses composition and evolution for the periods indicated:

For the year ended December 31,					
	2010	% of total	2011	% of total	Variation (%)
(Unaudited - in R\$ millions, except percentages)					
Bonus.....	(232.0)	29.3%	(479.6)	39.1%	106.7%
Retention expenses.....	(53.3)	6.7%	(32.5)	2.6%	(39.0)%
Salaries and benefits.....	(159.9)	20.2%	(213.2)	17.4%	33.3%
Administrative and others.....	(207.9)	26.3%	(293.2)	23.9%	41.0%
Goodwill amortization.....	(8.4)	1.1%	(31.2)	2.5%	271.4%
Tax charges, other than income tax.....	(129.5)	16.4%	(177.0)	36.7%	36.7%
Total operating expenses.....	(791.0)	100.0%	(1,226.7)	100.0%	55.1%

Our total operating expenses increased 55.1%, from R\$791.0 million in 2010 to R\$1,226.7 million in 2011. This increase was mainly due to the following factors:

Bonus: Our bonus expenses increased 106.7%, from R\$232.0 million in 2010 to R\$479.6 million in 2011. Our bonuses are determined in accordance with our profit-sharing program, and are calculated as a percentage of our adjusted net revenue. Our adjusted net revenue consists of our total revenues from business units (excluding interest and other revenues) deducted by salaries and benefits and administrative and other expenses. Accordingly, the increase of our bonus expenses in 2011 as compared with 2010 was due to a higher increase in revenues from business units as compared to the increase of the corresponding expenses.

Retention Expenses: Our retention expenses relating to our acquisition by our Partners decreased 39.0%, from R\$53.3 million in 2010 to R\$32.5 million in 2011. This decrease in our retention expenses was due to the phasing-out of our retention program, which ended in February 2012.

Salaries and Benefits: Our expenses related to salaries and benefits increased 33.3%, from R\$159.9 million in 2010 to R\$213.2 million in 2011. This increase was due to an average annual salary adjustment of 9.0% for our employees pursuant to the terms of the annual union agreement reached in September 2011, coupled with a 36.6% increase in the number of employees, from 919 as of December 31, 2010 to 1,255 as of December 31, 2011. This increase in the number of employees is associated with the organic growth of our business as well as the transfer of 149 employees from BTGI to us in September 2011 as part of a corporate restructuring of the BTG Pactual Group. See “—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Corporate Restructuring.”

Administrative and Others: Our administrative and others expenses increased 41.0%, from R\$207.9 million in 2010 to R\$293.2 million in 2011. This increase was mainly due to expenses, incurred only in 2011, of R\$18.0 million of legal expenses in connection with initiatives to implement changes to our corporate governance and organizational structure in anticipation of the private placement to the consortium and Participating Partners. Additionally, we experienced an increase in 2011 as compared to 2010 of (i) information technology consulting fees in connection with software developments for our operational platform in the amount of R\$11.2 million, (ii) R\$11.6 million in expenses for travel, presentations and conferences and (iii) R\$12.3 million in information technology other than consulting fees related to such software developments.

Goodwill Amortization: Our goodwill amortization expenses increased 271.4%, from R\$8.4 million in 2010 to R\$31.2 million in 2011, as a result of our acquisition of Coomex in October 2010 and the amortization of R\$2.8 million of goodwill on a monthly basis following the acquisition. In 2011, we recognized monthly goodwill amortization charges relating to Coomex of R\$2.8 million until August 2011, which was reduced to R\$1.5 million per month from September 2011 onwards. In addition, we amortized goodwill relating to the acquisitions of Recovery do Brasil Consultoria S.A. and Vivere Soluções e Serviços S.A. from March and October 2011, respectively, for a total of R\$3.3 million.

Tax Charges, Other Than Income Tax: Our tax charges, other than income tax increased 36.7%, from R\$129.5 million in 2010 to R\$177.0 million in 2011. The increase in our tax charges was mainly due to a 33.4% increase in our revenues, and from the decrease in revenues generated by our Cayman Islands branch (which are not taxable in Brazil). Our tax rate maintained relatively stable at 6.7% in 2011, compared to 6.5% in 2010.

Income Before Taxes

As a result of the foregoing, our income before taxes increased 19.1%, from R\$1,192.8 million in 2010 to R\$1,420.5 million in 2011.

Income Tax and Social Contribution Revenue (Expense)

Our income tax and social contribution revenue (expense) correspond to current and deferred taxes. Our income tax and social contribution revenue (expense) varied from an expense of R\$381.9 million in 2010 to a revenue of R\$56.6 million in 2011, mainly due to (i) a decrease of income tax expenses as a result of payment of interest on equity in the amount of R\$319.0 million in 2011, and (ii) the recognition of tax credits of R\$481.4 million in 2011 resulting from our merger with the investment vehicle used by the

members of the Consortium to acquire equity interests in December 2010. Such entity had previously recorded goodwill of R\$1,203.4 million in connection with such acquisition. Our effective income tax rate, including current and deferred taxes, was 32.0% in 2010 and (15.5)% in 2011. See “—Critical Accounting Policies – Deferred Income Tax and Social Contribution.”

Net Income

As a result of the foregoing, our net income increased 82.1%, from R\$810.9 million in 2010 to R\$1,477.1 million in 2011, representing a net margin of 40.9% and 55.8%, respectively, relative to our total adjusted revenues.

Regulatory Capital Requirements

We maintain a level and composition of equity capital that we consider sufficient to conduct our operations under well-capitalized bank standards. We manage our capital primarily through equity issuances and subordinated debt issuances. We also manage our capital requirements by establishing limits to our business units on the capital they deploy in their operations. Our definition of capital generally follows the principles and guidelines established by the Basel Committee, as they have been adopted from time to time by the Central Bank. As of December 31, 2012, our total shareholders' equity was R\$10,101.5 million compared with total shareholders' equity of R\$6,339.8 million as of December 31, 2011.

Our equity capital was materially enhanced as a result of the issuance of (i) US\$1.44 billion of equity to the members of the Consortium and the Participating Partners in December 2010 and (ii) R\$2,070.0 million in equity in our initial public offering in April 2012. Our BIS capital ratio as of December 31, 2012 reflects certain changes in the methodology for computing the market risk component of the Basel index (as per the implementation of the requirements under the Basel II Accord known as Basel 2.5). Basel 2.5 is a complex package of international rules that imposes higher capital charges on banks for the market risks they run in their trading books.

In March 2013, the CMN and the Central Bank issued a new regulatory framework for the implementation of the Basel III Accord in Brazil. Accordingly, CMN Resolution No. 4,192, of March 1, 2013, determined, among other things, that Brazilian financial institutions must comply with new minimum capital requirements and established new rules for the calculation of the PR, which will have to be adopted by Brazilian financial institutions by October 2013. See “Regulatory Overview—Capital Adequacy and Leverage.”

Regulatory Capital Adequacy

We believe that our working capital is sufficient for our present requirements and for the 12 months following the date of this Offering Memorandum.

We must comply with capital requirements established by the Central Bank and CMN that are similar to those recommended by the Basel Committee. The Basel Capital Accord is a risk-based guideline that establishes capital requirements for financial institutions. The main principle of the recommendation of the Basel Committee is that financial institutions should maintain a sufficient amount of capital to support the principal risks, including credit, market and operational risks, associated with the level of assets held in their balance sheets, calculated on a consolidated basis.

The regulations imposed by the Central Bank typically follow the guidance proposed by the Basel Committee. Brazilian financial institutions are still required to comply with standardized capital requirements with respect to their market, credit and operational risks. In June 2004, the Basel Committee approved a framework for risk-based capital adequacy, commonly referred to as the Basel II Accord. The Basel II Accord sets out the details for adopting more risk-sensitive minimum capital requirements for financial institutions. Pursuant to the Central Bank Communication No. 19,028 of October 29, 2009, the recommendations of the Basel II Accord will be fully implemented by the end of the first half of 2013.

The requirements imposed by the Central Bank and the CMN differ from the Basel II Accord in several aspects. Among other differences, the Central Bank and the CMN:

- establish a minimum capital ratio of 11%, instead of 8% currently adopted under international standards; and
- determine capital requirements based on the balance sheet according to Brazilian GAAP. Brazilian GAAP differs from IFRS due, among other reasons, to (a) the use of accrual principle, (b) the adoption of trade date convention, and (c) a limited permission to adopt netting conventions.

Adjusted shareholders' equity as currently set forth by CMN Resolution No. 3,444, of February 28, 2007, is considered for the determination of operating limits of Brazilian financial institutions, and is represented by the sum of the Tier I equity and Tier II equity.

Tier I capital is represented by the net shareholders' equity plus the balance of positive income accounts and of the deposit in the account designated to compensate capital deficiency, less the amounts corresponding to the balances of negative income accounts, revaluation reserves, contingency reserves, and special profit reserves concerning mandatory dividends not distributed, preferred shares with a redemption clause and preferred shares with cumulative dividends, certain tax credits, deferred fixed assets (less the premiums paid on acquiring the investments), and the balance of non-accounted gains or losses resulting from mark-to-market securities classified in the "securities available for sale" category and derivatives used for hedging cash flow. Our Tier I capital consists exclusively of common equity capital, reduced by small amounts of tax credit and deferred charges.

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

The total amount of Tier II capital is limited to the total amount of Tier I capital, provided that (i) the total amount of revaluation reserves is limited to 25.0% of the Tier I capital; (ii) the total amount of subordinated debt plus the total amount of redeemable preferred shares with an original maturity below ten years is limited to 50.0% of the total amount of the Tier I capital; (iii) the total amount of hybrid equity and debt instruments authorized by the Central Bank to be included in Tier I capital is limited to 15.0% of the total amount of Tier I capital and (iv) a 20.0% to 100.0% reduction will be applied to the amount of subordinated debt authorized for Tier II capital and of redeemable preferred shares during the period between 60 months and 12 months preceding their respective maturities.

Financial institutions such as us must calculate the adjusted shareholders' equity on a consolidated basis. At July 2007, the balances of assets represented by shares, hybrid equity and debt instruments, subordinated debt instruments and other financial instruments authorized by the Central Bank for inclusion in Tier I capital and Tier II capital issued by financial institutions must be deducted from the adjusted shareholders' equity. In addition, investment fund quotas proportional to these instruments must also be deducted from the adjusted shareholders' equity, as well as amounts relating to: (i) equity in financial institutions which information the Central Bank does not have access to; (ii) excess funds applied to permanent assets pursuant to the current regulation; and (iii) funds delivered to or available by third parties for related transactions.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements and fully endorsed previous agreements on the overall design of the capital and liquidity reform package, the Basel III Accord, which was endorsed at the Seoul G20 Leaders summit in November 2010. The Basel III Accord recommendations aim to improve the ability of financial institutions to withstand shocks to the financial or of other sectors of the economy, to maintain overall financial stability and to promote sustainable economic

growth. The Basel Committee's package of reforms will increase the minimum common equity requirement from 2% to 4.5%. In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand periods of stress, bringing the total common equity requirements to 7%.

In March 2013, the CMN and the Central Bank issued a new regulatory framework for the implementation of the Basel III Accord in Brazil. Accordingly, CMN Resolution No. 4,192, of March 1, 2013, determined, among others, that Brazilian financial institutions must comply with new minimum capital requirements and established new rules for the calculation of the PR, which is the basis for the determination of minimum regulatory capital.

Among the changes introduced by this new set of rules, it is important to highlight: (i) the introduction of the concept of quasi-financial institutions (*instituições assemelhadas*); (ii) the necessity of consolidation of financial statements of such quasi-financial institutions; (iii) the issuance of new rules for the calculation of the components of the PR (including Principal Capital and Complementary Capital, both of which comprising the so-called Tier I Capital). These changes are to be implemented from October 1, 2013 to January 1, 2022. See "Regulatory Overview—Capital Adequacy and Leverage."

Our Consolidated Capital Ratios

The following table sets forth additional information on our capital ratios as of December 31, 2010, 2011 and 2012:

	As of December 31,		
	2010	2011	2012
	(in R\$ millions)		
Reference Shareholders' Equity (PR)	5,567.0	8,431.0	14,593.3
Shareholders' equity – Tier 1	5,602.5	6,331.1	10,249.6
Shareholders' equity – Tier 2	-	3,165.5	5,124.8
Deductions from the Reference Shareholders' Equity	(35.4)	(1,065.6)	(781.1)
Required Reference Shareholders' Equity (PRE)	2,841.7	5,250.9	9,273.3
Credit risk	1,631.8	3,416.0	5,606.7
Market risk	943.1	1,553.5	3,440.8
Operating risk	266.7	281.4	225.8
Exceeding Required Reference Equity: (PR-PRE)	2,725.0	3,180.1	5,319.9
Capital adequacy ratio (based index): (PRx100)/PRE/0.11)	21.55%	17.66%	17.31%

Subsidiary Capital Requirements

We are subject to banking supervision and regulation on a global consolidated basis in Brazil under the Central Bank framework. Regulatory capital requirements are determined on a consolidated basis, including assets and liabilities of consolidated subsidiaries, even if such subsidiary is subject to the banking supervision of other regulators on an individual basis. In the case of Banco PanAmericano, due to the fact that we exercise joint control ownership, together with CaixaPar, the Central Bank determined that capital requirements and banking supervision will be exercised on a stand-alone basis. Banco PanAmericano is recognized as an independent bank conglomerate by the Central Bank, and its capital requirements must be satisfied with Banco PanAmericano's own capital. As mentioned above, we purchased a co-controlling interest in Banco PanAmericano. The effect of the transaction on the calculation of our regulatory capital is discussed above. See "Business—Significant Recent Developments."

Through our subsidiaries in the United States, we are subject to extensive regulation under U.S. law and regulations, including oversight by FINRA and the SEC. Through BTG Pactual Europe, one of our quoting entities authorized by the FSA to provide investment services in the United Kingdom, we are additionally subject to the supervision of the FSA and related regulatory requirements in the United Kingdom. See "Risk Factors – The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer

Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulation, and we cannot predict the effect of such regulation on our business,” “Regulatory Overview – Regulation in the United States” and “Regulatory Overview – Regulation in the United Kingdom.” Celfin and Bolsa y Renta are also subject to regulatory capital requirements determined by Chilean and Colombian laws and their regulators, respectively, calculated based on their own capital.

Liquidity

Liquidity is essential to our business. Liquidity management is the set of policies and procedures we put in place to ensure that we always have access to sufficient cash to meet our obligations, under normal circumstances and under severe market stress.

The most important principle of our liquidity management framework is the maintenance of a strong cash position – our liquidity buffer – at all times. Our liquidity buffer is calculated to be sufficient to run our operations for a minimum of 90 days assuming that we do not obtain new funding in the period. Our balance sheet is in a large part composed of very liquid financial instruments, and we obtain funding from a diversified range of unsecured instruments from a broad range of sources. Also, we maintain a contingency plan to manage our liquidity under severely adverse market conditions, based on the imposition of constraints on our lending operations and on the reduction of our exposure to illiquid assets and the sell-off of liquid instruments.

We have recently enhanced our liquidity profile through the issuance of the following securities: (i) in April 2011, R\$4.0 billion in local subordinated notes with an average maturity of 7.8 years; (ii) in July 2011, US\$500.0 million in senior notes due 2016 at a rate of 4.875%, under the Programme; (iii) in December 2011 and January 2012, three additional series of zero-coupon, one-year senior notes under the Programme to a single investor in the total principal amount of US\$106.0 million; (iv) in December 2011, a series of notes in the total principal amount of R\$0.6 billion with an average maturity of 7.0 years; (v) in September 2012, US\$800.0 million subordinated notes due 2022 at a rate of 5.75%, priced at 98.14%; (vi) in September and October 2012, total issuance of US\$235.0 million 7.00% senior notes due 2014 denominated in Colombian pesos under the Programme; and (vii) in January 2013, US\$1.0 billion in senior notes due 2020 at a rate of 4.00%. Under the terms of the US\$800.0 million subordinated notes, we may, among other things, defer payment of any amounts due to noteholders if we are not in compliance with, or such payment would cause us to not be in compliance with, operational limits applicable to Brazilian banks then in effect.

We intend to continue our funding activities by accessing funding from diversified sources in Brazil and abroad and issuing debt instruments and deposits in different markets, currencies and tenors. As of December 31, 2012, we had more than 300 depositors and our top 10 depositors represented less than 19.0% of our total unsecured funding base. We are subject to liquidity regulatory requirements imposed by the Central Bank, which includes the monitoring of our liquidity position, of our liquidity stress scenarios, and of our liquidity contingency plan. We are currently the only entity within BTG Pactual that is permitted to take deposits, directly and through our branches, (including interbank, demand and time deposits) from clients or counterparties.

Our indebtedness

The following table shows the composition of our funding as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(In R\$ millions)		
Deposits	10,573.5	14,211.1	14,624.0
Demand deposits	2,312.9	1,574.3	283.5
Interbank deposits	338.9	576.4	627.1
Time deposits	7,908.9	12,060.4	13,713.4
Other deposits	12.8	—	—
Open market funding	41,188.9	39,061.1	52,650.7
Funds from securities issued and accepted	1,305.5	3,774.6	8,480.1
Interbank transactions	—	—	0.3
Loans and onlending	155.3	919.7	1,904.7
Subordinated debt	—	4,158.3	6,246.1
Total	53,223.2	62,124.8	83,906.0

Demand deposits

We do not provide commercial banking services to our clients other than through our PanAmericano business unit. The cash balances maintained by our clients in demand deposits are seasonal, and typically result from the settlement of securities in connection with our sales and trading businesses. The volume of our demand deposits tend to vary, and are generally linked to the volume of transactions we settle for our clients. They can also be impacted by regulatory measures, or by certain taxes imposed on financial transactions, such as the IOF tax, that can cause our clients to delay certain cash transferences abroad. Demand deposits also include balances of money market deposits maintained by our clients with our Cayman Islands branch. As of December 31, 2012, the balance of our demand deposits from local and international clients totaled R\$283.5 million, compared to R\$1,574.3 million as of December 31, 2011.

Interbank deposits

We receive interbank loans from Brazilian financial institutions in open market operations. The balance of our interbank deposits increased, from R\$576.4 million as of December 31, 2011 to R\$627.1 million as of December 31, 2012.

Time deposits

A significant portion of our funding is in the form of time deposits. Usually, our depositors are Brazilian companies, pension funds and HNWI. Most of our CDBs bear an interest rate equivalent to the CDI plus a spread. Our balance of time deposits increased 13.7%, from R\$12,060.4 million as of December 31, 2011 to R\$13,713.4 million as of December 31, 2012. This increase was mainly due to our continuous effort to maintain a high level of market discipline and transparency, pursuant to which our clients and counterparties are informed about our performance and our strategy.

The table below shows the composition of our time deposits issued by maturity as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(in R\$ millions)		
Up to 90 days	1,050.7	3,180.7	6,872.4
From 91 to 365 days	5,699.4	6,184.5	5,134.6
From 1 to 3 years	987.1	1,553.5	581.6
Over 3 years	171.7	1,141.5	1,124.6
Total	7,908.9	12,060.4	13,713.4

The table below shows the concentration of our time deposits issued by depositors by economic group:

	As of December 31,		
	2010	2011	2012
(Unaudited)	(in R\$ millions)		
Total number depositors	245	265	367
Largest depositor	721.6	841.2	938.9
10 largest depositors	3,519.5	4,874.5	5,780.0
20 largest depositors	4,715.7	7,258.8	8,062.4
50 largest depositors	6,384.3	9,937.8	10,869.9
100 largest depositors	7,433.9	11,469.4	12,517.3

After December 31, 2012, we continued to incur indebtedness, mainly as a result of an increase in our open market funding (which is directly linked to corresponding increases in our open market investments and securities subject to repurchase agreements) and the issuance under this Programme of US\$1.0 billion in senior notes due 2020.

Open market funding

We fund a significant portion of our portfolio through secured funding arrangements, such as repurchase agreements. We maintain relationships with several market counterparties, such as financial institutions, prime brokers, institutional investors, asset managers, clearing agents, depositaries, central banks or other monetary authorities, through which we may obtain secured funding by placing significant portions of our portfolio of securities, especially government bonds, as collateral. Our secured funding transactions are an important component of our overall funding strategy in the context of liquidity management. The total balance of repurchase transactions vary in line with changes in the amount of our total assets, and especially of our securities portfolio. We also maintain a balance of repurchase agreements in connection with reverse repurchase transactions (i.e., our match portfolio), through which we allow clients, such as our investment funds, to access money markets for overnight or term investments collateralized by prime, highly liquid government securities. As of December 31, 2010, 2011 and 2012, our portfolio of repurchase transactions totaled R\$24,182.6 million, R\$22,838.4 million and R\$32,227.5 million, respectively.

Funds from securities issued and accepted

Our balance from securities issued and accepted increased from R\$1,305.5 million as of December 31, 2010 to R\$3,774.6 million as of December 31, 2011 and further increased to R\$8,480.1 million as of December 31, 2012. The increase is in line with our distribution efforts in local and international markets. We have recently issued various notes both in Brazil and abroad, as follows:

- In July 2011, we issued, through our Cayman Islands branch, a series of senior notes through the Programme in the total principal amount of US\$500 million. The maturity date of these notes is July 8, 2016;
- In December 2011, we issued a series of notes in the total principal amount of R\$600 million. The average maturity date of the notes is 7.0 years, and the first maturity date is June, 2017;
- In December 2011, we issued, through our Cayman Islands branch, three series of senior notes through the Programme to a single investor in the total principal amount of US\$106.0 million. The maturity date for these notes is one year from the date of issuance;
- In September and October 2012, we issued, through our Cayman Islands branch, approximately US\$235 million aggregate principal of senior notes, denominated in Colombian pesos, at a fixed coupon of 7.00% and maturing in September 2017, marketed primarily to investors in Latin America; and

- In January 2013, we issued, through our Cayman Islands branch, US\$1.0 billion in senior notes under the Programme at a fixed coupon of 4.00% and maturing in January 2020.

The table below shows the composition of our funds from securities issued and accepted by type as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(in R\$ millions)		
Financial bills	-	932.4	1,827.8
Mortgage bonds/letters of credit for agribusiness.....	1,299.4	1,692.5	3,978.1
Medium term notes and credit-linked notes	6.0	1,149.6	2,674.1
Total	1,305.5	3,774.6	8,480.1

Loans and onlendings

The funding from loans and onlendings consists of funding facilities obtained by us, such as revolving credit facilities, trade finance and BNDES lines of credit, among others. As of December 31, 2012, the outstanding balance of these facilities was R\$1,904.7 million, compared to R\$919.7 million at December 31, 2011 and R\$155.3 million at December 31, 2010, and such increase is directly linked to our strategy to grow our corporate lending unit, which was boosted by sustained economic growth and credit demand from our corporate clients.

Subordinated debt

Our subordinated indebtedness increased from R\$4,158.3 million as of December 31, 2011 to R\$6,246.1 million as of December 31, 2012. In April 2011, we issued a series of subordinated notes in Brazil in the total principal amount of R\$3,975.0 million, indexed to IPCA plus 1% per annum. The average maturity date of the notes is 7.8 years, and the first maturity date is October 2016. In September 21, 2012 we priced at 98.14% an issuance of US\$800 million, 5.75% subordinated notes due September 28, 2022, denominated in U.S. dollars. Under the terms of these notes, we may, among other things, defer payment of any amounts due to noteholders if we are not in compliance with, or such payment would cause us to not be in compliance with, operational limits applicable to Brazilian banks then in effect.

Dividends and other distributions

On September 18, 2009, the Partners acquired us. Immediately following the acquisition, we distributed dividends of R\$1.7 billion to BTG Pactual Participações II S.A., or BTG Participações, the vehicle used by such Partners to acquire us.

During 2010, we distributed R\$373.6 million of dividends, and in December 2010, we had a capital increase of R\$2.4 billion from the proceeds from the issuance of new equity capital to the members of the Consortium and the Participating Partners.

During 2011, we distributed R\$692.0 million of dividends to our shareholders, with the portion thereof received by our then current Partners used to amortize the remaining part of the debt of BTG Participações with third parties. In 2011, we further distributed R\$319.0 million as interest on shareholders' equity, which was recapitalized into us on the same date. We did not make any distributions to our Partners in 2011.

We paid aggregate dividends in 2010 and 2011 of R\$846.6 million and R\$876.0 million, respectively, which were, to a large extent, used by the Partners to amortize the outstanding debt incurred in connection with the acquisition of us.

On August 8, 2012, our board of directors approved the distribution of proceeds to our shareholders in the amount of R\$401.6 million, of which R\$220.0 million will be distributed as interest on shareholders' equity (subject to withholding taxes) and R\$181.6 million was distributed as dividends.

As of December 31, 2012, we had recorded R\$220.0 million and R\$192.2 million as interest on shareholders' equity and dividends, respectively, with such provisions being approved at the special shareholders' meetings held on December 19, 2012 and February 19, 2013.

Use of Funds

We mainly use our funds to carry out the activities of our sales and trading, corporate lending and principal investments business units, which provide, among other things, structured and other loans and take proprietary positions through market-making in, and trading of, fixed income and equity products, currencies, commodities, and swaps and other derivatives. The majority of our portfolio is comprised of highly liquid instruments. See "—Liquidity—Open market funding" above.

The following table presents our asset allocation in our consolidated balance sheet as of the dates indicated:

	As of December 31,					
	2010	% of total assets	2011	% of total assets	2012	% of total assets
	(in R\$ millions, except percentages)					
Assets						
Cash at banks.....	1,522.8	2.1%	517.3	0.6%	552.2	0.4%
Interbank investments.....	25,209.3	34.6%	19,583.0	23.9%	23,968.9	19.4%
Securities and derivative financial instruments	36,061.8	49.5%	42,893.9	52.3%	74,202.7	60.2%
Interbank transactions.....	134.1	0.2%	876.7	1.1%	475.0	0.4%
Loans	3,701.7	5.1%	4,665.2	5.7%	7,268.6	5.9%
Other receivables						
Securities trading and brokerage	1,989.5	2.7%	4,403.8	5.4%	3,885.6	3.2%
Other receivables	3,852.0	5.3%	7,641.7	9.3%	9,430.9	7.6%
Other assets	42.5	0.1%	25.1	0.0%	35.5	0.0%
Permanent assets.....	393.2	0.5%	1,405.3	1.7%	3,496.8	2.8%
Total assets	72,906.9	100.0%	82,012.0	100.0%	123,316.3	100.0%

Mandatory Deposits with the Central Bank

Mandatory deposit requirements are an integral part of the monetary policy framework of the Central Bank which requires financial institutions to deposit a certain amount of cash, or place Brazilian government bonds as collateral, in proportion the balances of demand or term deposits obtained from clients and counterparties.

Mandatory deposit requirements are generally calculated based on the moving averages of demand or term deposits. We comply with the requirements above by holding Brazilian government bonds, which amounted to R\$472.5 million as of December 31, 2012.

Contractual Obligations

The tables below present the maturity and balances of our significant contractual financial obligations as of December 31, 2012:

	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
	(R\$ millions)					
Deposit	7,660.2	5,209.2	606.2	1,146.1	2.4	14,624.0
Open market funding.....	50,502.6	1,938.5	61.6	-	148.0	52,650.7
Funds from securities issued and accepted	1,659.6	1,259.0	3,261.6	1,751.0	548.9	8,480.1
Loans and onlending.....	391.6	1,011.7	8.0	14.9	478.6	1,904.7
Subordinated debts	-	-	-	1,391.8	4,854.3	6,246.1

In addition, the table below presents the maturity and balance of our additional contractual obligations with respect to derivative financial instruments:

	Up to 6 months	6 to 12 months	Over 1 year	Total
	(R\$ millions)			
Derivatives financial instruments	6,760.6	395.2	907.9	8,063.7

Capital Expenditures

Our main capital investments in 2010, 2011 and 2012 amounted to R\$27.5 million, R\$27.2 million and R\$93.0 million, respectively. In 2010 and 2011, most of these expenditures related to investments in premises (43.6%), software (27.8%), data processing systems (21.2%) and communication systems (7.4%), while in 2012, the majority of these expenditures related to investments in connection with the relocation of our São Paulo operations to a substantially larger office in that year, as well as investments in communication systems and premises. For 2013, we expect that our main capital expenditures will amount to approximately R\$86.1 million, mostly comprised of investments in premises (48.7%), technology infrastructure including data processing systems and communication systems (41.9%) and software (9.3%).

Off-Balance Sheet Transactions

Except for the co-obligation and bank guarantees that we provide to clients for a fee and credit assignments in which we retain the credit risk in the ordinary course of our business via our FIDC, we do not have any off-balance sheet transactions. In addition, we do not control any company that is not consolidated or otherwise included in our financial statements. Our total amount of bank guarantees outstanding was R\$7,422.3 million as of December 31, 2012.

Risk Management

In the ordinary course of our business, we are exposed to various risks inherent to investment banking activities. The way we manage these risks directly affect our activities and operations and, consequently, our results. Some of the most significant risks to which we are exposed to are the following:

- market risk;
- credit risk and counterparty risk;
- liquidity risk;

- operational risk;
- reputational risk;
- tax risk; and
- legal and regulatory risk.

See “Risk Factors—Risk Factors Relating to Our Business and Industry.” The manner in which we manage and identify these risks is essential for our profitability. Our management of these risks involves different levels of our management team and encompasses a series of policies and strategies.

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational, compliance, tax and legal reporting systems. In addition, a number of our committees are responsible for monitoring risk exposures and for general oversight of our risk management process, as described further below. We believe that the close involvement of our various committees (including their subcommittees) with the ongoing management and monitoring of our risks helps us foster our culture of rigorous risk control throughout the organization. Our committees consist of senior members of our business units and senior members of our control departments.

We believe that the structure of our committees allows them to engage the whole organization and ensure decisions are readily and effectively implemented. The main committees involved in risk management activities are (i) Management Committee, which approves policies, sets overall limits and is the ultimate responsible for the management of our risks, (ii) New Business Committee, which assesses the viability and oversees the implementation of proposed new businesses and products, (iii) Credit Risk Committee, which is responsible for approving new credit transactions according to the guidelines set by our Risk Committee, (iv) Market Risk Committee, which is responsible for monitoring market risk, including utilization of our risk limits, and for approving exceptions to such limits, (v) Operational Risk Committee, which assesses main operational risks in light of the established policies and regulatory framework, (vi) AML Compliance Committee, which is responsible for establishing AML rules, and for reporting potential issues involving money laundering, (vii) CFO Committee, which is responsible for monitoring our liquidity risk, including our cash position and balance sheet usage, and for managing our capital structure and (viii) Audit Committee, which is responsible for the independent verification of the adequacy of our controls, and for assessing whether our books and records are kept appropriately.

Market Risk

We identify market risk by assessing the impact on the value of our assets and liabilities of variations in market risk factors such as interest rates, exchange rates, underlying prices and indices. Since most of our assets and liabilities are subject to market risk, we have developed our own tools to make it possible to carry out real-time analysis of the exposures on our portfolio. These tools enable us to perform analysis of the impact of different scenarios in our portfolio, taking into consideration severe market movements observed in distressed markets in the past, or our projected stress scenarios. These analyses are integral to our risk management. We measure our market risk exposure using several methodologies of VaR, Stress Test, sensitivity analysis, which are consistently applied to all positions in our inventory, allowing the comprehensive assessment of market risks across our different portfolios. The risk reports are tailored to better support the management of our risk exposure within each of our various business units and to allow proper senior management awareness of all relevant risk to which we may be exposed. We use a rigorous set of risk limits to manage our overall risks and to control the risk levels for each business unit by implementing portfolio limits (VaR and Stress Test), concentration limits (risk factor, regional, issuer) and operational limits (control or liquidity restrictions). These limits are periodically reviewed by our Risk Committee and usage is tracked and reported on a daily basis.

Market risk exposure can arise as a result of market-making, proprietary trading, underwriting, specialist and investing activities. Categories of market risk include exposures to interest rates, equity prices, currency rates and commodity prices. A description of each market risk category is set forth below:

- interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads;
- equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices;
- currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates; and
- commodity price risks result from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

Market Risk Control

The management of market risk is primarily the responsibility of our business units. If a business unit lacks specific power to manage a material market risk, it must transfer this market risk to a business unit permitted to hold such positions. In addition, our organizational structure also includes an area devoted to market risk control, which reports directly to our management and is independent from our business units.

The main responsibilities of the market risk area include the following:

- identifying and measuring market risks through the calculation of VaR, stress tests, the calculation of portfolio exposures and sensitivity analyses, which can be analyzed in real-time using the systems we have developed;
- producing daily reports on risk values for senior management, including the senior management of each of our business units, which we believe provide the necessary support for proper risk management;
- establishing, controlling and reviewing the risk policies in effect, including risk limits;
- establishing and reviewing the risk calculation models we use;
- establishing and reviewing the stress test hypothetical scenarios;
- generating backtesting analyses, on a monthly or more frequent basis, with input of the actual results, in order to verify the risk estimates generated by our internal system, as well as the parameters used in the calculations; and
- regularly monitoring incurred risks and investigating any apparent anomaly, including (i) inconsistencies between reported risks and effective results (which, in addition to backtesting exceptions, include any situation involving a significant divergence between them); (ii) inconsistencies between incurred risks and business unit strategies; and (iii) positions that are not being actively managed.

Limits

In order to align the risks incurred by our business units with anticipated results, and taking into consideration our capital basis, each business unit is required to comply with established market risk limits. The market risk limits are managed pursuant to the following risk measures:

- portfolio limits, which include (i) VaR limits of 95% (1 day) per portfolio and per business unit and (ii) hypothetical stress test limits per regional business unit;

- concentration limits, which include exposure limits, such as the concentration of risk factors per countries, regions and issuers; and
- operational limits, which include limits used to cover occasional material risks that are not adequately captured by traditional metrics, including exposure to unexpected and unperceivable risk factors. They may also be defined when required by specific market conditions, including liquidity, or control deficiencies.

VaR, stress test and exposure limits are disclosed daily in the consolidated risk report issued by the market risk area, which includes the observations of each of our business units. The report is sent to the individuals responsible for each business unit and is the main tool for monitoring the limits.

Limits are reviewed on a quarterly or more frequent basis, taking into consideration both the historical risk use and the average and maximum expected exposure of each business unit. The market risk area proposes a limit, mainly considering our current capital base, and submits the document for the risk committee's approval.

Loss Control

All positions have a stop loss level that is set forth by each business unit and monitored by the market risk area.

VaR

VaR is a measure of the potential loss in value of trading positions due to adverse market movements over a defined time horizon with a specified confidence level. Along with Stress Testing, VaR is used to measure the exposure of our positions to market risk. We use historical simulation with full re-pricing of positions for the VaR computation, preserving real distributions and correlation between assets, not making use of Greek approximations and normal distributions. Our VaR can be measured and reported according to different time horizons, historical look-back windows and confidence levels. The accuracy of the risk system is tested through daily back-testing procedure that compares the adherence between VaR estimations and realized PnL.

For the VaR numbers reported below, a one-day time horizon, a 95.0% confidence level and a one-year look-back window were used. A 95.0% confidence level means that there is a 1 in 20 chance that daily trading net revenues will fall below the VaR estimated. Thus, shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once a month. Shortfalls on a single day can exceed reported VaR by significant amounts and they can also occur more frequently or accumulate over a longer time horizon, such as a number of consecutive trading days. Given its reliance on historical data, the accuracy of VaR is limited in its ability to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions can produce materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day. As previously stated, we use "Stress Test" modeling as a complement of VaR in our daily risk management activities.

The following table sets forth our average daily VaR for the years indicated:

	For the year ended and as of December 31,		
	2010	2011	2012
Total average daily VaR.....	21.6	28.4	60.5
Average daily VaR as % of average equity ⁽¹⁾	0.49%	0.47%	0.74%

(1) Unaudited

Our total average daily VaR increased during 2011 and 2012, as a result of the deployment of the additional capital we raised in December 2010 and our April 2012 initial public offering. In 2012 and 2011, our daily average VaR also increased due to the continuing ramp-up of some business areas in our sales and trading business unit (e.g. the energy trading desk), a larger inventory of assets held and new asset classes. A characteristic of our business model is that our average VaR may vary, within certain levels, as part of our normal course of business, as we see more or less opportunities in the market.

Credit Risk

Credit risk represents the loss that we would incur if a counterparty or an issuer of securities or other instruments we hold fails to perform under its contractual obligations to us, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including over-the-counter derivatives, we hold. Our exposure to credit risk principally arises through our trading and investing activity and financing activities. We attempt to manage the risk exposure by (i) entering into agreements that enable us to obtain collateral from a counterparty on an upfront or contingent basis, (ii) seeking third-party guarantees of the counterparty's obligations, and/or (iii) transferring our credit risk to third parties using options, swaps and other derivatives contracts on the exchanges, particularly on BM&FBOVESPA. The following table sets forth the distribution, by credit rating, of our credit exposures as of December 31, 2012 to financial instruments, excluding derivatives and securities under trading activities. The ratings shown below reflect our internal ratings assessment, consistently applied in accordance with the Central Bank standard ratings scale:

Rating	As of December 31, 2012 (in R\$ millions)
AA	11,672
A	14,888
B	5,505
C	770
D	183
E	606
F	12
G	29
H	106
Total	33,770

The table below states our main exposures to credit risk, classified by economic activity of the counterparties as of December 31, 2012:

	Government	Financial institutions	US agencies	Services	Investment funds	Individuals	Industry	Energy	Rural	Clearing	Real estate	Other	Total
Cash at banks	-	552.2	-	-	-	-	-	-	-	-	-	-	552.2
Short-term interbank investments	6,709.1	1,917.8	-	2,116.2	13,225.8	-	-	-	-	-	-	-	23,968.9
Securities and derivative financial instruments	32,058.1	971.0	13,913.8	3,886.7	-	2.3	250.0	3,579.4	-	559.7	1,294.8	17,687.0	74,202.7
Interbank transactions	472.5	-	-	-	-	-	-	-	-	-	-	2.5	475.0
Loans	-	-	-	3,875.0	-	807.0	2,049.0	-	457.3	-	-	80.2	7,268.6
Other receivables ⁽¹⁾	-	3,239.5	-	999.8	1,526.0	1,766.3	77.7	213.9	-	454.4	-	1,519.0	9,796.6
Total	39,239.7	6,680.5	13,913.8	10,877.7	14,751.8	2,575.6	2,376.7	3,793.3	457.3	1,014.1	1,294.8	19,288.7	116,263.9

(1) Other receivables include only balances with credit characteristics

Derivative Contracts

Derivative contracts are financial instruments, such as futures, forwards, swaps or option contracts, which derive their value from underlying assets, indexes, reference rates or a combination of these factors. Derivative instruments may be entered into by us in privately negotiated contracts, which are often referred to as over-the-counter derivatives, or they may be listed and traded on an exchange.

In our sales and trading and principal investments businesses, we actively enter into derivative transactions with our clients and counterparties in different markets in Brazil and abroad. The use of derivatives facilitates our trading activities, as these instruments typically permit the efficient transference

and hedging of risks, a feature that is especially desirable given the dynamism of the markets in which we operate.

Derivatives are used in many of our businesses, and we believe that the associated market risk can only be understood relative to the underlying assets or risks being hedged, or as part of a broader trading strategy. Accordingly, the market risk of derivative positions is managed in conjunction with all of our other non-derivative risk.

As of December 31, 2012, we held R\$624.9 million in collateral against these over-the-counter derivative exposures. This collateral consists predominantly of cash and government bonds and is usually received by us under agreements entitling us to require additional collateral upon specified increases in exposure or the occurrence of negative credit events.

In addition to obtaining collateral and seeking netting agreements, we attempt to mitigate default risk on derivatives by entering into agreements that enable us to terminate or reset the terms of transactions after specified time periods or upon the occurrence of credit-related events, and by seeking third party guarantees of the obligations of some counterparties. Derivatives transactions may also involve the legal risk that they are not authorized or appropriate for a counterparty for which documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty. We attempt to minimize these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction.

Liquidity and Funding Risk

Liquidity is of critical importance to companies in the financial services sector. Most failures of financial institutions have occurred in large part due to insufficient liquidity resulting from adverse circumstances. Accordingly, we have in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both specific and broader industry or market liquidity events. Our principal objective is to be able to fund us and to enable our core businesses to continue to generate revenues, even under adverse circumstances. For additional information, see “Liquidity”.

Reputational Risk

We are also subject to reputational risks. For a description of such risk, see “—Principal Factors Affecting Our Financial Condition and Results of Operations—Reputational Risk” and “Risk Factors.”

Operational Risk

Operational risk relates to the risk of loss arising from shortcomings or failures in internal processes, people or systems, or from external events. Operational risk can arise from many factors ranging from routine processing errors to potentially costly incidents related to, for example, major systems failures. Operational risk may also cause reputational harm. Thus, efforts to identify, manage and mitigate operational risk must be equally sensitive to the risk of reputational damage as well as the risk of financial loss.

We manage operational risk through the application of long standing, but continuously evolving, firm-wide control standards which are supported by the training, supervision and development of our people; the active participation and commitment of senior management in a continuous process of identifying and mitigating key operational risks across our business; and a framework of strong and independent control departments that monitor operational risk on a daily basis. Together, we believe these elements form a strong firm-wide control culture that serves as the foundation of our efforts to minimize operational risk exposure.

Operational Risk Control, a risk management group independent of our revenue-producing units, is responsible for developing and implementing a formalized framework to identify, measure, monitor, and report operational risks to support active risk management across our business. This framework, which evolves with the changing needs of our businesses and regulatory guidance, incorporates analysis of

internal and external operational risk events, business environment and internal control factors, and scenario analysis. The framework has the ultimate goal of ensuring that we always operate under the highest standards of quality in our business processes, protecting our earnings and reputation, providing regular reporting of our operational risk exposures to our board of directors, risk committees and our senior management.

Tax Risk

Tax risk includes the risk of exposure to fines, penalties, judgments, damages and/or settlements in connection with regulatory assessment as a result of non-compliance with applicable legal and regulatory requirements. See “—Principal Factors Affecting Our Financial Condition and Result of Operations—Tax Risk.”

Legal and Regulatory Risk

We are subject to significant legal and regulatory risks. See “Risk Factors—Risk Factors Relating to Our Business and Industry” and “Risk Factors—Risk Factors Relating to the Regulatory Environment.” Our legal and compliance departments are responsible for mapping, controlling and preventing these risks by supporting all of our business units and administrative areas. Our legal department has 30 professionals divided into groups specialized in investment banking, asset management, principal investments and trading, wealth management, litigation and corporate affairs. Our compliance department has 52 professionals who are responsible for the development and maintenance of our internal controls regarding regulatory matters such as anti-money laundering, information barriers and securities trading restrictions, as well as conducting training on regulatory matters for us. The most important risks that we potentially face are managed with the involvement of two or more members of our Senior Management Team.

BUSINESS

Overview

We are an investment bank, asset manager and wealth manager with a dominant franchise in Brazil. In addition, we have established a successful international investment and distribution platform. We were founded in 1983 and have operated as a meritocratic partnership since our inception. Currently, we have offices on four continents, and provide a comprehensive range of financial services to a Brazilian and global client base that includes corporations, institutional investors, governments and high net worth individuals, or HNWI.

Our Business

Our seven business units are:

- **Investment Banking**, which provides financial advisory and capital markets services;
- **Corporate Lending**, which offers financing and loan guarantees to corporations;
- **Sales and Trading**, which offers financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes;
- **Asset Management**, which offers asset management services with a broad range of products across major Brazilian and international asset classes to Brazilian and international clients;
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI;
- **PanAmericano**, our commercial and consumer banking business conducted through Banco PanAmericano, an independent Brazilian bank that we have co-controlled since mid-2011, which focuses on granting automobile loans, direct consumer loans, payroll deduction loans, middle market loans and mortgages, primarily to individuals and corporations in Brazil; and
- **Principal Investments**, which involves our capital investments with respect to a broad range of financial instruments, including merchant banking and real estate investments in Brazil and investments in a variety of financial instruments in global markets, which investments are primarily managed by our asset management unit.

We are committed to further expanding our platform outside of Brazil and in 2012 we acquired Celfin, a leading broker dealer in Chile that also operates in Peru and Colombia and Bolsa y Renta, a leading broker dealer in Colombia. Both Celfin and Bolsa y Renta have a wide array of products and services (concentrating in investment banking, sales and trading, asset management and wealth management). We intend to further expand their operations to include many of the additional products and services we currently offer in Brazil.

We believe our transactions with Celfin and Bolsa y Renta represent milestones in our efforts to replicate our history of success in Brazil throughout Latin America, and uniquely position us as a true leader throughout the region.

Our Group

We are part of the BTG Pactual Group, which includes both Banco BTG Pactual and BTGI. The two entities are sister entities that have the same ultimate beneficial owners. We, the principal operating company in the group, were founded as a small broker-dealer and have grown by creating new business units and expanding the activities within these business units. BTGI, the investment vehicle for many of the

BTG Pactual Group's principal investments (including most of its non-Brazilian investments and certain of its Brazilian investments), was originally formed in late 2008. BTGI acts as a vehicle for part of the principal investment business of the BTG Pactual Group, and has no operating activities or employees. Its assets are managed by our asset management unit, which receives arm's length fees and commissions from BTGI for its services. Such fees and commissions are primarily recorded by us as revenues in our asset management unit. BTGI will not participate in any offering of Notes under the Programme as either an issuer or a guarantor.

As of December 31, 2012, the BTG Pactual Group had approximately 2,200 professionals and offices on four continents: South America (São Paulo, Rio de Janeiro, Brasília, Recife, Porto Alegre, Belo Horizonte, Santiago, Lima, Medellin and Bogota), North America (New York), Europe (London) and Asia (Hong Kong).

On April 30, 2012, the BTG Pactual Group completed its initial public offering, consisting of 103,500,000 units, each representing, directly or through depositary receipts, (i) one common share and two preferred shares of our capital stock and (ii) one voting share and two non-voting shares of BTG Pactual Participations. The majority of these units were listed in Brazil on the BM&FBOVESPA, and 129,000 units were also listed in Europe on the Alternext Amsterdam, the multilateral trading facility operated by Euronext Amsterdam N.V. The majority of the units offered in the initial public offering are represented by primary securities, resulting in gross proceeds to the BTG Pactual Group of approximately R\$2,587.5 million, of which Banco BTG Pactual received R\$2,070.0 million. We have used, and expect to continue to use, our portion of the proceeds from the initial public offering of the BTG Pactual Group to, among other things, increase our corporate lending and sales and trading operations and develop new lines of business.

Our Results and Financial Condition

For the year ended December 31, 2012, our revenues were R\$5,619.8 million and our net income was R\$2,061.2 million. As of December 31, 2012, our shareholders' equity was R\$10,101.5 million, and we managed a total of R\$121.5 billion in our asset management unit and R\$62.2 billion in our wealth management unit. Our different business units produce a combination of fee and trading revenues that have allowed us to consistently generate strong earnings growth and positive returns on equity through varying and at times difficult economic and market conditions. For the five years ended December 31, 2012, our average return on equity was 21.5%, with no year being lower than 17.7%.

The following table shows key performance data for Banco BTG Pactual for the periods indicated:

	As of and for the year ended December 31,			CAGR
	2010	2011	2012	2010-2012
	(in R\$ millions, except as otherwise indicated)			%
Total revenue ⁽¹⁾	1,983.8	2,647.1	5,619.8	68.3%
Net income	810.9	1,477.1	2,061.2	59.4%
Shareholders' equity	5,602.5	6,339.8	10,101.5	34.3%
ROAE ⁽³⁾⁽⁴⁾ (%)	18.3%	24.7%	25.1%	17.1%
AUM and AUA (in R\$ billions) ⁽²⁾	91.5	120.1	170.7	36.6%
WUM (in R\$ billions) ⁽²⁾	31.2	38.9	62.2	41.2%
BIS capital ratio	21.5%	17.7%	17.3%	(10.3)%

(1) Derived from our unaudited adjusted income statement.

(2) Unaudited.

(3) We determine our average shareholders' equity based on the initial and final net equity for the period.

(4) Figures are presented on an annualized basis.

Our Partnership

We operate as a partnership, currently with 186 Partners, who are also executives in our group. The Partners currently own 75.21% of our equity, and 71.91% of our equity is part of our partnership, and

we refer to such equity as “Partnership Equity.” Our 36 most senior Partners, who we consider to be key contributors to our success, own approximately 63.98% of our equity. The members of a consortium of investors who purchased our equity in December 2010 currently own 9.40% of our equity, and the remaining equity is owned by Partners (including Participating Partners), Celfin partners, Bolsa y Renta partners and the persons who purchased units in the initial public offering of the BTG Pactual Group or thereafter in the public markets.

We believe the key to our success is our partnership model. We believe this model (i) fosters a culture of teamwork, talent development, entrepreneurship, meritocracy and long-term commitment, (ii) substantially enhances the integration of our seven complementary business units and maximizes cross-selling of our products, (iii) allows us to maintain an intense commitment to our clients, and identify and capitalize on opportunities in the Brazilian and international financial markets, (iv) substantially enhances our ability to attract the best available talent and (v) greatly facilitates our ability to consistently maintain a lean and cost efficient organizational structure. As a result of this model, and the integration of our businesses, we have a diversified revenue mix and low cost-to-income ratio and have consistently achieved financial results that we believe exceed those of our competitors.

In contrast to other investment banking and asset management firms in Brazil and worldwide that have sold equity to the general market in the past, we have implemented several concrete steps to ensure that our partnership model will not change as a result of our initial public offering completed in April 2012. Most importantly, our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives) at book value. Such right will continue with respect to all of the Partnership Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the BTG Pactual Group in its entirety. We believe that the substantial ownership position of our Partners and the maintenance of our partnership in which Partnership Equity is bought and sold at book value on a meritocratic basis will (i) ensure the continued commitment of our most important executives to our success following our initial public offering, (ii) permit us to maintain our unique culture and the competitive advantage it grants us and (iii) permit us to attract and retain future generations of talent, all of which create an unprecedented alignment of the interests of our senior management with the interests of public shareholders. See “Our Partnership.”

Our Core Values

Our organization is built and operates on the following set of 12 core values:

Strategic Focus: How we set our strategic direction

- Client focused
- Alpha-based
- Global thinking and presence
- Long-term ambition

People: How we work

- Partnership
- Teamwork
- Hard-working and hands-on
- Grow our own talent

Performance Management: How we achieve superior results

- Meritocracy
- Entrepreneurship
- Excellence
- Bottom line driven and cost conscious

We believe that the culture that results from these core values differentiates us in the market, leads to an integrated organization and ensures superior results.

Our Competitive Strengths

We believe that our competitive strengths include:

Substantial Presence in Brazil, where we Are a Dominant Investment Bank, Asset Manager and Wealth Manager, with a Leading Franchise in the Businesses We Operate

We are one of the leading players in Brazil's financial services industry, which we believe to be one of the most attractive financial services markets globally. Given our substantial presence in Brazil, we believe that we are positioned to participate in the vast majority of significant merger and acquisition, financial advisory and capital markets transactions involving Brazilian companies.

Dominant franchise. We are one of the premier brands for investment banking and asset management in Brazil and one of the largest independent investment banks based in the emerging markets. Among other things, we:

- were bookrunners in approximately 50% of all public equity offerings completed in Brazil from 2004 to 2012, and the leading equity underwriter in terms of number of bookmanaged transactions according to ANBIMA. In terms of total volume underwritten, we were the leading underwriter of equity issued by companies listed on BM&FBOVESPA in 2004, 2005, 2007, 2009 and 2012, and the second largest equity underwriter in 2006 and 2011, according to ANBIMA. In 2010, we were the leading equity underwriter in terms of total deals completed according to ANBIMA;
- were ranked first in Brazilian M&A advisory rankings according to Thomson in 2010 and 2011 and provided advisory services in 255 announced M&A transactions from January 1, 2007 through December 31, 2012;
- have an equity research team named among the best research teams in Brazil from 2006 to 2012, and the best research team in Latin America in 2012, according to *Institutional Investor*;
- are one of the largest equity brokerage houses in Brazil in terms of total volume of securities traded, according to BM&FBOVESPA;
- are the largest asset manager in Brazil, excluding retail banks, according to ANBIMA

(December 2012), with R\$121.5 billion in AUM and R\$170.7 billion in AUA as of December 31, 2012;

- had approximately R\$62.2 billion of WUM as of December 31, 2012; and
- received a number of awards recognizing the excellence of our asset management platform, including: the Best Research team (Latin America and Brazil) and Best Sales and Trading Services team (Brazil) by *Institutional Investor* (2012), the Best Fund Manager in Brazil in 2012 and 2011 by *Exame* magazine – one of Brazil's leading financial magazines, the Best Fund Manager in the Largest Fixed Income and Flexible Mixed Allocation categories in 2012 by Standard & Poor's and *Valor Econômico* – Brazil's leading financial newspaper in 2012, the Best Global Macro Hedge Fund (for our GEMM fund) in 2012 and 2010 by *Euro Hedge Awards*, the Best Fixed Income Fund Manager in 2011 by Standard & Poor's and *Valor Econômico*, Best Active Multi-Market, Best Active Fixed Income, Best Conservative Fixed Income and Best Wholesale Fund Manager in 2011 by FGV (Fundação Getúlio Vargas) and *Exame* magazine, Best Multi-Market (Interest Rate and Currency) and Conservative Fixed Income Fund Manager in 2010 by FGV (Fundação Getúlio Vargas) and *Exame* Magazine, Best Multi-Market Fund Manager in 2010, Best Fund Manager in Brazil in the equities category from 2007 to 2009, the Top Fixed Income fund manager for 2007 and 2008 and the Best Multi-Asset Funds for 2010 by Standard & Poor's and *Valor Econômico*.

We believe we have a vast knowledge of the Brazilian financial market, can identify business opportunities and trends more quickly and accurately than our competitors in Brazil and, due to our flat management structure and strong capital base, can act more effectively on such business opportunities.

We also have an extensive network of long-standing business contacts and corporate relationships, and we believe we have a strong brand and a reputation for excellence among our target corporate and individual client base.

Attractive opportunities for further growth of our core franchise. The Brazilian financial services industry has grown significantly in recent years, and we believe it is poised for further growth, creating attractive opportunities for the leading market participants such as ourselves. The market for financial services has grown as a result of economic stability and the gains in economic growth momentum and the increase in such services have in turn played a key role in further advancing such improvements in macroeconomic performance.

As a result, according to the CVM, Brazilian issuers engaged in 76 equity transactions raising R\$75.5 billion in 2007, in 13 equity transactions raising R\$34.9 billion in 2008, in 24 equity transactions raising R\$47.1 billion in 2009, in 25 equity transactions raising R\$152.2 billion in 2010, in 25 equity transactions raising R\$19.2 billion in 2011 and in 13 equity transactions raising R\$14.3 billion in 2012, as compared to only six equity transactions raising R\$6.1 billion in 2002. Brazilian issuers engaged in 57 debt transactions raising R\$17.8 billion in 2007, in 82 debt transactions raising R\$32.6 billion in 2008, in 170 debt transactions raising R\$48.1 billion in 2009, in 242 debt transactions raising R\$75.4 billion in 2010, in 356 debt transactions raising R\$86.3 billion in 2011 and in 358 debt transactions raising R\$190.1 billion in 2012, as compared to only 43 debt transactions in Brazil raising R\$3.3 billion in 2002, according to ANBIMA.

Consistent with this increase in the number of equity and debt transactions, total credit volume in Brazil grew from 25.7% of GDP in December 2004 to 53.6% of GDP in December 2012 according to the Central Bank.

Despite the considerable progress already made, we believe Brazil still has substantial potential for further improvements in macroeconomic performance and in the financial sector. We believe the conditions for such improvement are already in place. In particular, there is potential for greater penetration of the Brazilian capital markets, and Brazil is well-positioned to gain importance as a provider of financial services to other regional economies. Investor interest in the equity and debt securities of Brazilian

companies remains strong given Brazil's strong growth prospects, and Brazilian issuers are expected to need substantial additional funding.

The Brazilian asset management industry has also grown considerably, with AUM growing from R\$739.0 billion as of December 31, 2000 to R\$2,261.9 billion as of December 31, 2012, according to ANBIMA, of which 9.0% corresponds to investments in equity securities. We expect the growth in the size and sophistication of the capital and asset management markets to continue the trend of the last decade. In 2012, the Brazilian gross disposable income was R\$4,339.3 billion, compared to R\$1,653.6 billion in 2003, representing an increase of 162.4% and an average compound annual growth, or CAGR, of 11.3%, according to the IBGE. We believe that increasing wealth in Brazil will stimulate growth in all our business units.

Established International Asset Management Platform

We have an international asset management platform in London, New York and Hong Kong that, together with our São Paulo and Rio de Janeiro offices, provides Brazilian, emerging market and global investment products and services to our local and international client base. We have over 90 professionals, including 19 of our most senior executives, in our international offices dedicated exclusively to the international asset management business. Our flagship international hedge fund, GEMM, was awarded Best Global Macro Hedge Fund in 2010 and 2012 by EuroHedge Awards, a leading trade publication.

Broad Network of International Contacts

The members of the Consortium who have invested in our equity in December 2010 include affiliates of the Government of Singapore Investment Corporation Pte Ltd (GIC), China Investment Corporation (CIC), Ontario Teachers' Pension Plan Board (OTPP), Abu Dhabi Investment Council (ADIC), J.C. Flowers & Co. LLC, RIT Capital Partners plc, Marais LLC, the Santo Domingo Group of Colombia, EXOR S.A., the investment company controlled by the Agnelli family of Italy, and Inversiones Bahía, the holding company of the Motta family of Panama. These investors provide us with a broad range of business contacts throughout Asia, the Middle East, Europe and North and South America, and since their entrance into our capital structure, we have successfully leveraged these contacts to strengthen many of our principal businesses and realize additional revenues. As part of the initial public offering of the BTG Pactual Group in April 2012, Europa Lux III S.a.r.l, RIT Capital Partners plc, Marais LLC, EXOR S.A. and Rendefeld, S.A. sold part of their equity interest in the BTG Pactual Group.

Our acquisitions of Celfin and Bolsa y Renta have already provided us with substantial additional contacts throughout the Andean region, and we have begun to leverage these contacts to gain substantial new relationships and mandates that we believe neither we nor Celfin or Bolsa y Renta might have gained on a stand-alone basis. Finally, we participated as an anchor investor in the September 2011 initial public offering by CITIC Securities Co., or CITICs, a leading Chinese investment bank. We are currently working with CITICs to jointly develop a number of business initiatives, including by co-advising clients seeking to execute transactions involving Chinese and Latin American companies.

Distinctive Culture Stressing Intellectual Capital, Meritocracy, Entrepreneurship and an Unprecedented Alignment of Interests

We operate under a partnership model and a flat management structure that emphasizes the value of intellectual capital, entrepreneurship and meritocracy. We believe this model is the key to our success. We are managed by our Senior Management Team covering our Brazilian and international operations. We have 186 Partners that currently own, directly or indirectly, approximately 75.21% of our equity.

We consider our personnel to be our most valuable asset and believe that our culture and partnership structure allows us to attract, retain and motivate highly talented professionals. Our recruiting strategy and training are aimed at producing future Partners. The commitment of our personnel to our culture and success is reinforced through the recognition of individual merit and a variable compensation system that rewards teamwork, entrepreneurship and initiative, and eventually results in our most valuable professionals becoming vested in the success of our business as Partners. We believe that our partnership

model, recruitment strategy and management structure result in our achieving substantially less turnover at the middle and senior management levels than our Brazilian and international competitors.

Our culture also stresses an alignment of interests between our shareholders, including both the members of the Consortium and our public shareholders, and our professionals. Virtually all of our key professionals are Partners and their respective equity ownership in Banco BTG Pactual and BTGI represents significant portions of their personal wealth (and in most cases, the vast majority of such wealth). For our 25 most senior Partners, including our senior traders and investment managers, the earnings and capital appreciation on their equity in the BTG Pactual Group exceed the amount they earn in salary and bonuses. We believe that this creates an unprecedented alignment of interests that encourages (i) a rigorous analysis of the risks that we take in our trading and principal investments activities, (ii) our pursuit of strategies that emphasize long-term, consistent and profitable growth, (iii) a long-term commitment to our clients and our reputation, (iv) the maintenance of a lean organizational structure and decision-making process and (v) a strong focus on cost controls.

Consistent with our long standing strategies, we have taken concrete steps aimed at ensuring that our partnership model remains in effect for the foreseeable future so that both our Partners and our public shareholders continue to enjoy the financial and strategic benefits which we derive from this model. See “Our Partnership.”

Our Track Record of Strong Growth with Consistent Profitability through Various Economic Cycles while Maintaining Strong Capital Ratios and Rigorous Risk Controls

A substantial portion of our Senior Management Team is based in Brazil and has many years of experience leading us throughout various economic cycles, including the Asian crisis (1997), the Russian crisis and Long Term Capital Management crisis (1998), the crisis following Brazil’s currency devaluation (1999), the end of the so-called “Internet bubble” (2000-2001), the Argentine debt default (2002), the market volatility related to the Brazilian presidential elections (2002-2003) and the recent international financial crisis.

We have generated strong and consistent returns on our capital throughout these various cycles. We have been profitable during each of the last 15 years ended December 31, 2012. For the five years ended December 31, 2012, our average return on equity was 21.5%, with no year being lower than 17.7%.

While we seek to generate strong and consistent earnings, we also focus on consistently maintaining strong capital ratios and an adequate risk profile. Our capital adequacy ratio at the end of each year from 2008 to 2012 has been on average 20.3%. As of December 31, 2012, we had a capital ratio of 17.3%. We believe that our track record of consistently maintaining a higher capital ratio than that required by the Central Bank, while consistently generating attractive returns on equity, highlights our ability to deploy capital efficiently.

Similarly, we maintain a rigorous discipline of risk management and internal controls. We monitor our risks on a daily basis; looking at all dimensions that we believe are relevant to our operations, including market risk, credit risk, liquidity risk, counterparty risk and operational risk. In our risk control framework, we adopt risk models that allow us to measure risks based on the past behavior of markets (VaR) and on our stress test scenarios and simulations. Our senior Partners, who are responsible for the management of the BTG Pactual Group’s risks, are closely involved in the execution of the daily operations, and have a deep understanding of the markets in which we conduct our operations. We also have a separate risk management team led by a member of our Senior Management Team. As a consequence, risk management is an integral part of our decision-making process, which we believe has allowed us to maintain consistent returns, and to optimize the use of our capital.

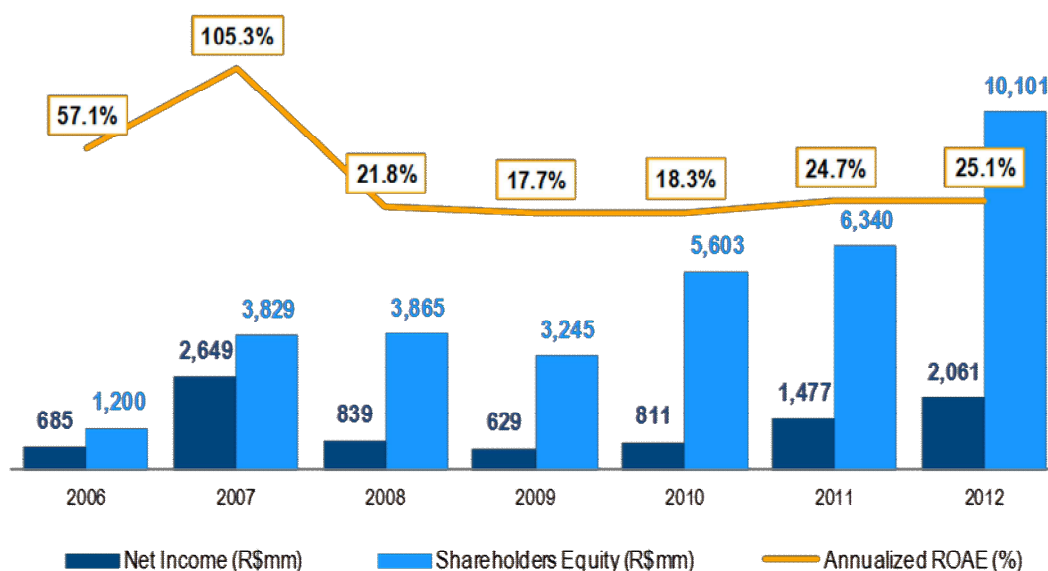
The following table sets forth our average daily VaR for the years indicated:

	For the year ended and as of December 31,		
	2010	2011	2012
Total average daily VaR.....	21.6	28.4	60.5
Average daily VaR as % of average equity ⁽¹⁾	0.49%	0.47%	0.74%

(1) Unaudited

We believe that our risk management policy applies the best practices, which have been tested in extremely adverse conditions, including during the 2008 financial crisis. In addition, given that the vast majority of our Partners' personal wealth consists of their respective equity interests in the BTG Pactual Group, we believe that the interests of the persons taking and monitoring risk at the BTG Pactual Group are more fully aligned with our non-executive shareholders than is the case at our competitors, reinforcing our rigorous risk control and long-term profit strategies.

The following chart shows our net income, shareholders' equity and return on average equity for the periods indicated:



Experienced Management Team and Motivated Work Force

We have a group of highly talented professionals with a strong reputation in the Brazilian and international financial markets. This group was responsible for establishing and implementing the strategies that permitted us to become one of Brazil's leading financial institutions. Our team includes André Santos Esteves, who was named in 2012 one of the 50 most influential people in global finance by *Bloomberg* and Person of the Year by the Brazilian-American Chamber of Commerce and, in 2010, was named one of the 25 most powerful people in the world of investment banking by *Institutional Investor*, and Persio Arida, who was the President of the Central Bank in 1995, President of the BNDES from 1993 to 1994, and one of the key economists to lead the creation and implementation of the *Real Plan*. Outside of Brazil, our team includes numerous executives with substantial experience in international institutions acting as traders of G-10 and non-Brazilian emerging markets securities or as top executives in global investment banking and asset management business units. These team members have been selected based on both their previous histories of success and our belief that they shared our distinctive business culture and would serve as the

cornerstones for implementing this culture in our international offices and in our businesses generally going forward.

We believe that our workforce is highly motivated and efficient, in large part due to our partnership model. As a result, we have been able to achieve industry leading employee efficiency (measured by revenue per employee) which enables us to offer extremely attractive compensation that recognizes the contribution of our professionals. For the year ending December 31, 2012, the revenue per employee of the BTG Pactual Group (including BTGI, which is not an issuer in the Programme) was US\$2,023.3 thousand, while the estimated average for a group of other leading international investment banks composed of Goldman Sachs, Morgan Stanley and Credit Suisse was US\$668.9 thousand.

Our Diversified Portfolio of Businesses

We believe we have successfully diversified our business operations and sources of revenue to maximize opportunities for leveraging our client relationships across business units as well as to best position ourselves to exploit any changes in market conditions.

The following table shows our unaudited revenues breakdown by business unit, which was not prepared in accordance with Brazilian GAAP and materially differs from our income statement:

	For the year ended December 31,		
	2010	2011	2012
	(Unaudited - in R\$ millions)		
Investment banking.....	344.0	338.3	448.0
Corporate lending	251.1	366.5	563.6
Sales and trading.....	637.8	999.9	1,516.6
Asset management	298.4	443.2	1,190.2
Wealth management	103.5	144.5	201.7
PanAmericano ⁽¹⁾	0.0	(52.0)	(244.5)
Principal investments	201.6	(111.2)	1,356.9
Interest and other ⁽²⁾	147.5	518.1	587.2
Total revenues, net of direct expenses allocation.....	1,983.8	2,647.1	5,619.8

(1) Our commercial banking activities commenced after the acquisition of a co-controlling interest in Banco PanAmericano on May 27, 2011, and are conducted exclusively through that non-consolidated investment. Accordingly, we did not record any revenues for our PanAmericano business unit in 2010.

(2) Our revenues recorded under “interest and other” include the interest on our capital, which is the internal opportunity cost for remunerating our net equity, typically determined based on the CDI rate. The interest on our capital, recorded as “Interest and Other,” is in turn deducted as a funding cost directly from our business units’ revenues. The units primarily affected by such deductions are those which carry larger inventories of financial instruments (i.e., sales and trading, commercial lending and principal investments units), as their results are presented in our adjusted income statement net of the interest on our capital, as well as all other costs for obtaining external funding to finance their portfolios.

We believe that our strong market positions across the spectrum of financial services enable us to adapt quickly and prosper under changing market conditions. Our entrepreneurial culture leads us to consistently seek new and diversified revenue sources, including opportunities outside our traditional target market in Brazil, such as our May 2011 acquisition of Banco PanAmericano. We believe our diversification increases our potential to successfully grow our business and to maintain our profitability.

In addition, we believe our market strength within each of our business units allows us to maximize the value we obtain from our client relationships by using an integrated approach to cross-sell the services that we provide. For example, many of our significant asset and wealth management clients generated their wealth through public offerings that we have underwritten. This cross-selling is particularly advantageous within both the Brazilian market and the Andean region, where many wealthy families still control a significant share of local businesses and thus require a wide variety of financial services for both their personal wealth and the substantial businesses they control.

We believe that our solid research capabilities also contributed to our significant participation in equity underwritings in Brazil in addition to generating significant brokerage commissions for our sales and

trading unit. Consequently, we currently provide our clients with both high quality asset and wealth management and financial advisory services – both in capital markets and M&A. In addition, our sales and trading and principal investments units cover multiple markets and different geographies, with a focus on building long-term relationships and delivering high quality execution.

Finally, we believe that we will achieve very attractive geographical diversification and significant synergies from the recent acquisitions of Celfin and Bolsa y Renta, and that the combination of the BTG Pactual Group, Celfin and Bolsa y Renta will create business opportunities not available to any of the companies on a standalone basis. See “Business—Celfin” and “Business—Bolsa y Renta.”

Strong and Diversified Funding Base with Proven Asset-Liability Management

We have a solid and diversified base for funding our operations through our private banking network, institutional client base, corporate client base, and in the capital markets. We are consistently able to fund our operations and to manage our liquidity risk. We seek to maintain a strong cash position, which is always sufficient to run our operations for 90 days assuming that we do not obtain new funding. Our balance sheet is in a large part composed of very liquid financial instruments, and we obtain funding from a diversified range of unsecured instruments from a broad range of sources. Also, we maintain a contingency plan to manage our liquidity under severely adverse market conditions. We enhanced our liquidity profile in (i) April 2011 through the issuance of R\$3.975 billion in local subordinated notes with an average maturity of 7.8 years, (ii) July 2011 with the issuance under the Programme of US\$500 million in senior notes due 2016 at an interest rate of 4.875%, (iii) September 2012 with the issuance of US\$800 million in subordinated notes due 2022 at an interest rate of 5.75%, (iv) September and October 2012 with the total issuance of the Colombian Peso equivalent of approximately US\$235 million in senior notes due 2017 at an interest rate of 7.0%, and (v) in January 2013 through the issuance of US\$1.0 billion in senior notes due 2020 at an interest rate of 4.00%. As of December 31, 2012, we had more than 300 depositors.

Our Strategy

Our principal strategies are:

Capitalize on Brazil’s Outstanding Growth Perspectives

We believe that Brazil has all of the conditions necessary to achieve outstanding growth in the financial services sector. These conditions include:

- a favorable macroeconomic environment and political stability;
- a sound institutional and regulatory framework;
- improved corporate governance;
- a sophisticated and deep domestic financial market;
- a highly attractive investment environment;
- a growing middle market and middle income consumer base; and
- numerous companies well-positioned to continue to grow and tap international markets.

Large investment opportunities have also been created by the exploration of the recently discovered pre-salt oil and gas reserves, and also by Brazil’s hosting of the 2014 FIFA World Cup and the 2016 Olympic Games. These opportunities, combined with sustained growth in domestic income and consumption and significant demand for improvements in infrastructure, are expected to result in an important increase in capital expenditures in Brazil.

Multinational companies seeking higher growth continue to expand in Brazil, including through acquisitions, while at the same time numerous Brazilian companies have become multinational enterprises that are actively pursuing international acquisitions. A greater percentage of the Brazilian population is entering into higher income classes and becoming potential consumers of asset and wealth management products. Also, the middle market and low income consumer base is expected to continue to grow substantially as Brazil's GDP continues to grow.

We intend to continue to take advantage of the favorable Brazilian market conditions by using our expertise and ability to consolidate and expand our franchises and leverage our reputation among our current and prospective Brazilian and international clients interested in Brazil-related opportunities by, among other things:

- continuing to actively market our equity and debt capital markets services to Brazilian issuers, with a view toward maintaining and expanding our position as the leading Brazilian underwriter;
- seeking to expand our M&A advisory business, both for Brazilian companies seeking to acquire businesses in Brazil or abroad, and foreign companies seeking to acquire Brazilian businesses and assets;
- continuing to be the leading independent Brazilian asset manager and a leading independent wealth manager and expanding our efforts to market these products;
- seeking to continuously develop new and sophisticated FICC products for our corporate clients to meet their needs as they grow both in Brazil and internationally;
- taking advantage of private sector and pre-IPO investment opportunities sourced through our extensive Brazilian network;
- continuing to develop the business conducted in our regional Brazilian offices outside of São Paulo and Rio de Janeiro; and
- expanding our credit products and derivatives portfolio, leveraging Banco PanAmericano's independent commercial and consumer banking platform and taking advantage of expected growth in the Brazilian middle market and middle income consumer base.

Maintain Our Distinctive Culture

In contrast to other investment banking and asset management firms in Brazil and worldwide that have sold equity to the general market in the past, we have implemented several concrete steps to maintain our partnership model following our initial public offering completed in April 2012. Currently, the Partners own approximately 75.21% of our total equity, and 71.91% of our equity is Partnership Equity that is owned by our Partners as part of our partnership. Our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives) at book value. Such right will continue with respect to all of the Partnership Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions. Accordingly, none of our Partners sold any units or underlying securities in our initial public offering or are expected to sell such securities for the foreseeable future (i.e., we expect that the Partnership Equity will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the entire BTG Pactual Group). These mechanisms result in a substantial amount of the economic burden of incentivizing our most important executives to fall on our existing Partners, rather than Banco BTG Pactual or the persons who purchased units in our initial public offering or in the open market following our initial public offering.

We believe the mechanisms described above create an unprecedented alignment of interests between our Partners, who currently own 75.21% of our equity, and our public shareholders, and minimized the changes to our culture following our initial public offering allowing us to continue our efforts to maximize value for our shareholders while simultaneously managing risk in a proactive manner. See “Our Partnership.”

Take Advantage of Attractive Growth Opportunities through Strategic Acquisitions

We intend to expand through selective acquisitions. We expect to focus on acquisitions that are complementary to our existing businesses, and that offer opportunities for growth and earnings accretion within our existing businesses. We may also seek to expand our investment banking and asset management activities to other Latin American and emerging markets. We believe that our recent initial public offering will enhance our capability and flexibility to execute strategic acquisitions by strengthening our balance sheet and allowing us to use our publicly traded securities as acquisition currency. See “Business—Significant Recent Developments.” We believe that our recent acquisitions of Celfin and Bolsa y Renta, as well as our 2010 acquisition of Companhia Operadora do Mercado Energético, or Coomex, an energy sales company, and our May 2011 acquisition of a co-controlling stake in Banco PanAmericano, are perfect examples of the type of acquisition we expect to pursue.

Expand Our International Operations

Our presence in important financial markets such as São Paulo, New York, London and Hong Kong enables us to better explore business opportunities arising in different regions and demonstrates our intention to continuously seek diversification. We believe there are attractive opportunities for selective continued expansion outside Brazil and intend to pursue these opportunities. We believe, for example, that our strong reputation and global presence will allow us to (i) expand our marketing of Brazilian and emerging markets asset management products to a global customer base, (ii) expand our investment banking business to other Latin American countries, (iii) attract additional talent and teams with experience in markets and products outside of Brazil where we currently do not have significant expertise, and (iv) expand the business that we conduct internationally with Latin American companies that are expanding globally.

Celfin is a leading broker dealer in Chile, a country with robust capital markets, that is a net exporter of capital. Similarly, Bolsa y Renta is one of the leading broker dealers by volume of equity transactions in Colombia, with a portfolio of US\$3.4 billion in wealth under management and US\$721.2 million in asset under management as of December 31, 2012. We believe that we can distribute many of our Brazilian and international asset management, wealth management and corporate finance products to the respective existing client bases of Celfin and Bolsa y Renta, who are seeking additional investment options, and that our extensive experience in mergers and acquisitions and corporate finance transactions will enhance their product offerings in these areas, permitting us to enhance the revenues that Celfin and Bolsa y Renta can generate from their respective impressive bases of leading Chilean and Colombian corporate clients.

We also see Colombia (where Bolsa y Renta is based and Celfin more recently commenced operations) and Peru (where Celfin has operations) as key to our efforts to achieve substantial additional geographic diversification. These countries, like Brazil a decade ago, have incipient capital markets, an expanding consumer class and numerous companies seeking capital for growth. We were among a small handful of financial institutions that led the efforts to develop and deepen Brazil’s debt, equity and mergers and acquisitions markets during the last decade, and believe that we can replicate our Brazilian success in Colombia and Peru to achieve significant market share in these markets, which we expect will grow substantially in the coming years. We also believe that many Brazilian, Chilean, Colombian and Peruvian companies will seek to expand throughout Latin America, and that our local presence in each of these key Latin American markets makes us uniquely positioned to provide financial services to these companies. In addition, we have also entered into a strategic cooperation agreement with VTB Capital, a leading investment bank in Russia, to explore opportunities between Russia and Latin America.

Selectively Expand Our Portfolio of Credit Products and Derivatives

To support future growth and the corresponding new significant investment needs, Brazil will need to increase the availability of credit. The recent wave of equity offerings by Brazilian companies has greatly increased the number of potential Brazilian corporate borrowers with transparent financial disclosure and enhanced levels of corporate governance. Simultaneously, many other Brazilian companies have expanded their operations in recent years and are increasing their transparency in anticipation of a potential public offering. These two groups of companies are likely to need additional debt capital for growth and active management of their capital structure, and accordingly are attractive customers for our credit products.

In addition, as a result of the completion of our initial public offering, we believe that our funding costs will continue to decline and we will have a greater variety of financing options available. We believe these cheaper and more diversified sources of funding will facilitate our efforts to selectively expand our credit products (including derivatives, securitizations, structured credits and pre-IPO financings) on a profitable and prudent basis.

We plan to expand our offering of credit products and derivatives to our current and prospective clients, including through our commercial banking platform. We expect to primarily exploit credit opportunities that are linked to our other core business units – in particular investment banking – and also those that involve structured products and derivatives. We intend to continue to analyze credit opportunities closely, performing rigorous analyses of prospective borrowers' businesses and existing and prospective financial condition and results, in order to select opportunities which will satisfy our stringent standards for achieving high returns within acceptable risk parameters. We consider Banco PanAmericano's origination platform another step in implementing these strategies, as such platform originates consumer finance and middle market assets on a primary basis that are complementary to the credit that we originate through our own platform.

Continue to Develop Our Merchant Banking and Private Equity Businesses

We believe that our ability to provide permanent capital to our clients is an important competitive advantage. Accordingly, the BTG Pactual Group intends to continue to develop its merchant banking and private equity businesses, primarily with respect to investments in Brazil. We believe that the BTG Pactual Group's network of contacts and significant deal flow grants us access to numerous attractive investment opportunities that may not be available to our competitors, and that as a result we will be able to attract third party investors to private equity and similar funds for which we will act as the investment manager and generate management and performance fees for our asset management unit. We also expect BTGI to serve as the anchor investor and have a meaningful equity ownership in certain of such entities and funds in connection with the merchant banking activities of the BTG Pactual Group and accordingly generate revenue for the principal investments unit. For example, in June 2011, we closed our new private equity fund of approximately US\$1.5 billion, US\$490 million of which came from BTGI. We intend to raise such funds and pursue investment opportunities (i) using the capital of such funds, (ii) through co-investments with other financial investors or (iii) using solely the BTG Pactual Group's own capital. We believe the continued development of these businesses will also contribute to our other business units through cross-selling opportunities.

Subsidiaries

As of the date of this Offering Memorandum, our principal subsidiaries are the following:

	Share (%) in total capital	Activity	Jurisdiction
Direct subsidiaries			
BTG Pactual Asset Management S.A.	99.99	Asset Management Services	Brazil
Distribuidora de Títulos e Valores Mobiliários			
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	99.99	Equities Broker Dealer	Brazil
BTG Pactual Serviços Financeiros S.A.	99.99	Fund Administration Services	Brazil
Distribuidora de Títulos e Valores Mobiliários			
BTG Pactual Corretora de Mercadorias Ltda.	99.99	Currencies/ Commodities	Brazil
		Broker dealer	
BTG Pactual Securitizadora S.A.	99.99	Real Estate Securitization	Brazil
BTG Pactual Comercializadora de Energia Ltda.	99.99	Electrical Energy Trading	Brazil
BTG Pactual Holding International S.A.	99.99	Holding Company	Brazil
BTG Pactual Overseas Corporation	100.00	Holding Company	Cayman
Vivere Soluções e Serviços S.A.	30.00	IT / Mortgages	Brazil
Global Ltd.	100.00	Holding Company	Cayman
BW Properties S.A.	67.49	Real Estate Business	Brazil
G.U.A.S.P.E S.A	99.99	Dormant Company	Brazil
BTG Pactual Holding de Seguros Ltda.	99.99	Holding Company	Brazil
BTG Pactual Chile SPA	100.00	Holding Company	Chile
Bolsa y Renta S.A.	99.99	Broker Dealer	Colombia
Celfin International Ltd.	100.00	Holding Company	Cayman
Banco Panamericano S.A.	34.06	Commercial Banking	Brazil
Warehouse 1 Empreendimentos Imobs S.A.	35.00	Real Estate	Brazil
Max Casa XIX Empreendimentos Imobs S.A.	50.00	Real Estate	Brazil
ACS Omicron Empreendimentos Imobs S.A.	44.74	Real Estate	Brazil
BR Properties S.A.	25.03	Real Estate	Brazil
Indirect subsidiaries			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	99.98	Private Equity Asset Management Services	Brazil
BTG Pactual WM Gestão de Recursos Ltda.	99.99	Wealth Management Asset Management Services	Brazil
BTG Pactual Gestora de Recursos Ltda.	99.99	Private Equity Asset Management Services	Brazil
BTG Pactual Corporate Services Ltda.	99.99	Financial Services Advisory	Brazil
BTG Pactual Serviços Energéticos Ltda.	100.00	Electrical Energy Trading	Brazil
BTG Pactual NY Corporation	100.00	Holding Company	USA
BTG Pactual Global Asset Management Limited	100.00	Asset Management	Bermuda
BTG Pactual Europe LLP	100.00	Asset Management	England
BTG Pactual Asset Management US, LLC	100.00	Asset Management	USA
BTG Pactual US Capital, LLC	100.00	Brokerage and Clearing Services	USA
BTG Pactual Asia Limited	100.00	Asset Management	Hong Kong
BTG Global Asset Management (UK) Limited	100.00	Holding Company	England
BTG Pactual SEG Holding S.A.	100.00	Holding Company	Brazil
BTG Pactual RE Holding S.A.	100.00	Holding Company	Brazil
Celfin Capital S.A.	100.00	Holding Company	Chile
Celfin Capital S.A. Corredores de Bolsa	100.00	Broker Dealer	Chile

	Share (%) in total capital	Activity	Jurisdiction
Celfin Capital Administradora de Fondos de Capital Extranjero S.A	100.00	Asset Management	Chile
Celfin Capital S.A. Administradora General de Fondos	100.00	Asset Management	Chile
Celfin Capital S.A. Sociedad Agente de Bolsa	100.00	Broker Dealer	Peru
Celfin Capital S.A. Sociedad Administradora de Fondos Inversion	100.00	Asset Management	Peru
Celfin Capital S.A. Sociedad Comisionista de Bolsa	100.00	Broker Dealer	Colombia
Laurel Sociedad Gestora Profesional S.A.	100.00	Asset Management	Colombia

Business Units

Information about our business units should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes thereto included elsewhere in this Offering Memorandum.

Investment Banking

We are among the leading providers of investment banking services in Brazil. We provide a wide range of investment banking services, such as acting as underwriters or placement agents in capital raising transactions in the public and private debt and equity markets, providing finance advisory services, and sophisticated financial and structured products and services for corporations, financial institutions, investment funds, governments and individuals. Although these services are primarily rendered to clients based in Brazil, we also serve non-Brazilian clients, including entities and individuals seeking to engage in M&A and other transactions in Brazil or involving Brazilian securities or other Brazilian financial instruments, including services to non-Brazilian clients seeking to list their securities on BM&FBOVESPA. We have also begun to provide such services to clients in Chile, Peru and Colombia, and expect such activity to increase given Banco BTG Pactual’s recent acquisitions of Celfin and Bolsa y Renta.

Our investment banking activities are divided into two categories:

- **Capital Markets**, which includes acting as underwriters, placement agents or advisors in public offerings and private placements of equity and debt securities; and
- **M&A and Advisory**, which includes advisory assignments with respect to mergers and acquisitions, divestitures, restructurings, spin-offs, reorganizations and other significant corporate transactions.

We believe that we provide our clients with high quality and straightforward advice and effective transaction execution, which has developed and fostered long-term relationships with our clients and has provided us with a strong competitive advantage both in Brazil and throughout Latin America, ahead of retail banks in Brazil with larger capital bases or foreign banks lacking scale and penetration in the Brazilian market.

For the year ended December 31, 2012, our revenues from our investment banking business unit, as reflected in our unaudited adjusted income statement, were R\$448.0 million, representing 8.0% of our total revenues.

Organization

Our investment banking unit has continuously adapted its organizational structure to meet changing market dynamics and our clients’ needs. Our current structure, which is organized along

execution and industry groups, seeks to combine our client-focused investment bankers with execution and industry expertise.

We believe having a group of professionals who focus on developing and maintaining strong client relationships (coverage bankers) is an important competitive advantage in our marketing effort. These professionals work with senior executives of our clients to identify areas where we can provide capital raising, financial advisory or other financial products and services. Our coverage bankers are organized by industry specific groups, which include Agribusiness, Basic Materials, Energy and Power, Financial Institutions, Healthcare, Real Estate, Retail and Transportation and Telecom and Media. The broad base of experience and knowledge of our professionals, coupled with their long-term commitment to us, enables us to analyze our clients' objectives and to allocate the resources that we believe appropriate to satisfy our long-term objectives. Through our commitment to teamwork, we believe that we provide integrated services that benefit our clients.

Our capital markets group, which is divided into equity capital markets and debt capital markets, and our M&A and advisory group are responsible for the execution of specific client transactions as well as the building of client relationships. These industry and product groups provide a full range of investment banking products and services to our clients relying on specialized knowledge of industry-specific trends.

In line with the expansion of our global alternative asset management operations, we are seeking to build our global investment banking capability focused on emerging markets. Based in Europe, this capability seeks to leverage corporate and sovereign capital market and advisory opportunities across our global emerging market franchise. In addition, Celfin has an experienced investment banking team that we expect to integrate into our investment banking group.

Capital Markets

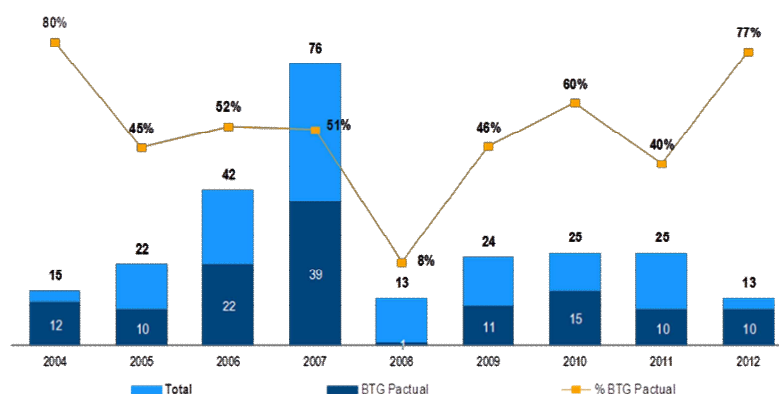
From January 1, 2010 through December 31, 2012, we served as lead manager or bookrunner in transactions that have raised approximately R\$202.0 billion of capital for our clients. We underwrite a wide range of equity and debt securities, including convertible securities.

We believe that a key factor in our equity and debt underwriting operations is the close working relationship between our investment banking and capital markets professionals and our sales team. We believe that we have relationships with a large and diverse group of Brazilian issuers as well as Brazilian and overseas investors.

Equity Capital Markets

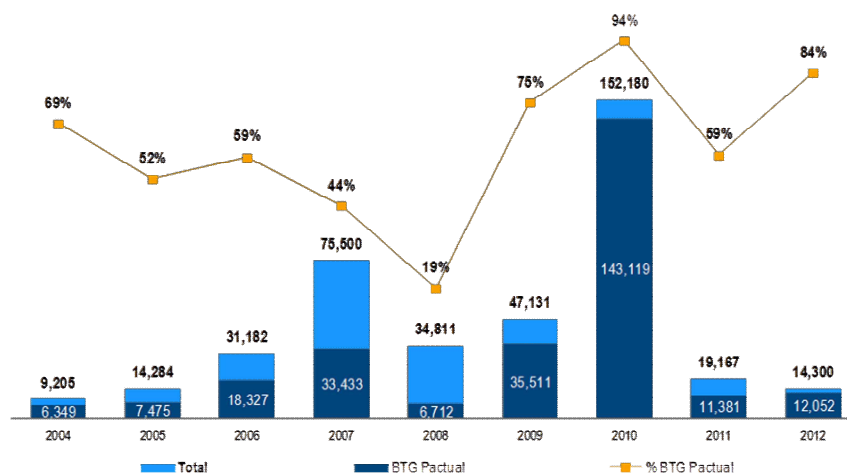
Equity underwriting has been one of our long-term core strengths. The following graphs show our strong position in equity underwriting for the periods indicated:

Number of Transactions



Source: CVM

Volume (R\$ millions)⁽¹⁾⁽²⁾⁽³⁾



Source: CVM

- (1) Represents the total aggregate transaction value allocated to the underwriter syndicate participating in equity offerings and not only our share in the syndicate.
- (2) Represents companies listed on BM&FBOVESPA which are registered with the CVM.
- (3) Data for 2010 includes transactions in which we participated but that were credited to UBS AG and the Petrobras equity offering, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee.

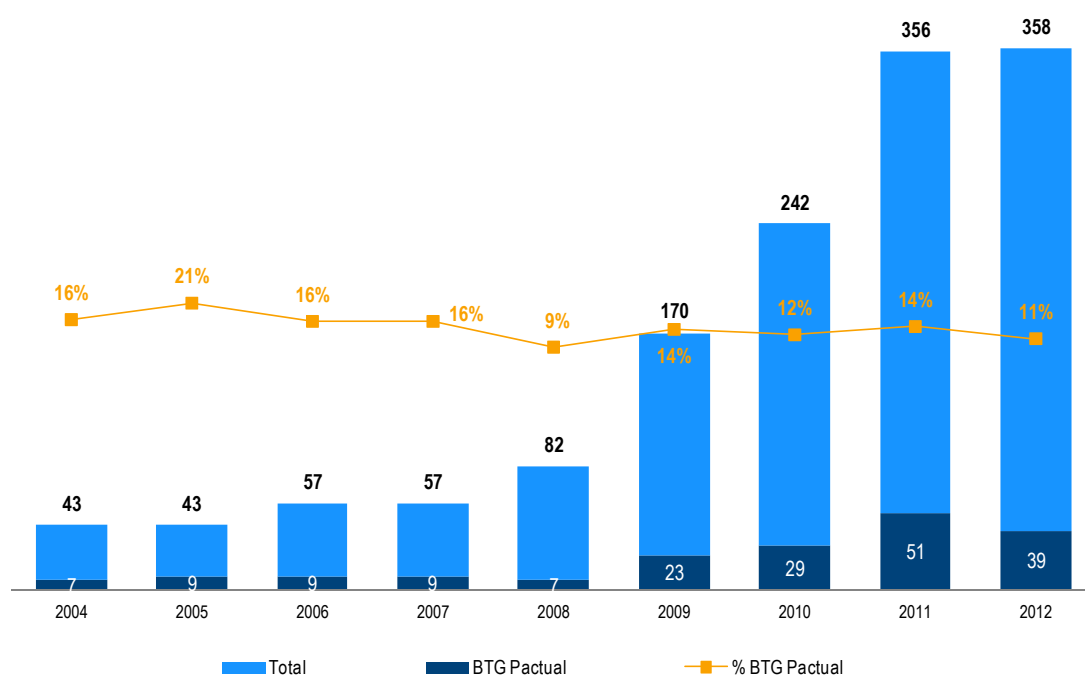
We believe our leadership reflects our expertise in capital markets transactions, the strength of our research team, our track record and our distribution capabilities.

Debt Capital Markets

We engage in the underwriting and origination of debt securities and varying debt instruments for Brazilian corporations and governmental entities, including convertible debt securities. In servicing our clients, we employ a focused approach to debt underwriting, emphasizing high value-added areas.

The graphs below set forth our strong position in the Brazilian debt capital market for the periods indicated:

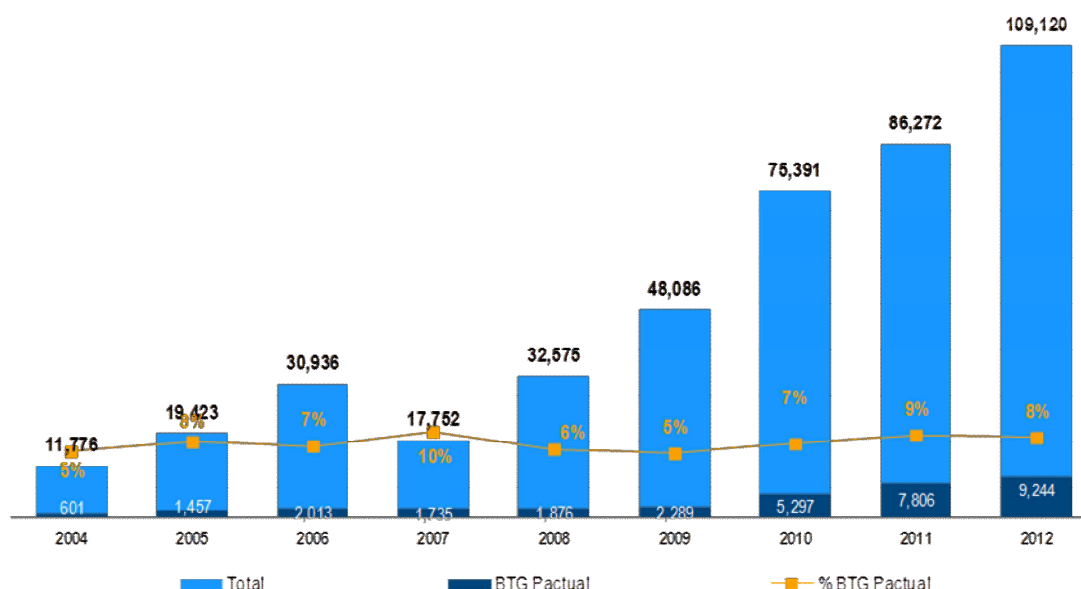
Number of Transactions⁽¹⁾



Source: ANBIMA

(1) Accounts for local fixed income origination operations only.

Volume (R\$ millions)⁽¹⁾⁽²⁾



Source: ANBIMA

- (1) Accounts for local fixed income origination operations only.
- (2) With respect to syndicated transactions, represents the total aggregate transaction value allocated to the underwriter syndicate participating in debt offerings and not only the BTG Pactual Group's portion of the total allocation.

M&A and Advisory

We provide our clients with a broad range of advisory services with respect to mergers and acquisitions, divestitures, restructurings, reorganizations and spin-offs, generally involving Brazilian companies. We advised on more than 255 M&A transactions from January 1, 2008 through December 31, 2012.

The following table shows the number of M&A transactions in which we have acted as advisor and our market share for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
Number of Banco BTG Pactual transactions	58	56	72
Total number of transactions in the Brazilian market	717	815	901
Banco BTG Pactual transaction volume, in R\$ million	61,688	40,975	33,089
Total transaction volume in the market, in R\$ million ⁽¹⁾	215,671	134,887	136,093
% Banco BTG Pactual⁽²⁾	28.6%	30.4%	24.3%

Source: Thomson Financial

- (1) Assumes the full transaction value allocated to all financial advisors and not only our portion of the total allocation.
- (2) Refers to the percentage of completed deals advised by us (both on sales and purchases) versus total deals completed in the period.

Investment banking is an example of how one of our activities can generate cross-selling opportunities for other areas. For example, a client advised by our M&A group may seek our assistance in obtaining financing associated with the transaction. Additional cross-selling opportunities may also arise

from the continued development of our private equity and merchant banking businesses given that the companies in which we have invested may seek to access the capital markets and hire our investment banking unit as an advisor. For example, in 2011, we acted as lead underwriter in the initial public offering of Brazil Pharma, one of the portfolio companies in our private equity fund. This cross-selling is particularly advantageous in Latin America, where many affluent families still control a significant share of businesses and thus require a wide variety of financial services for both their personal wealth and the substantial businesses they control.

Corporate Lending

Through our corporate lending business unit, we offer financing, structured credit, loans and guarantees to corporations, primarily in Brazil. The main focus of our corporate lending activities is to meet the demands of large corporations, developing solutions suited to the business profile and objectives of each client, such as cash flow management and mismatches between assets and liabilities.

We engage in a number of financing transactions in which we act as lender for various clients ranging from mid-size companies to larger investment grade companies. One of our strategies is leveraging our investment banking business unit in order to enhance and increase our financing transactions, capitalizing on our strong market relationships and capital position. We have provided loans to companies that we believe have potential to be leaders in their particular industry segments and also to certain private companies that we believe have potential to become publicly traded in the future, such as M&A financing and pre-IPO loans.

Our corporate lending business unit includes two booking areas: (i) the high grade credit desk and (ii) the high yield credit desk.

The main focus of our high grade credit desk is to meet the demands of large corporations through the development of solutions tailored to the business profile and objectives of each client. This desk is characterized by what we believe to be a very low probability of default and high concentration of counterparties, usually larger than R\$50.0 million. Additionally, this desk is responsible for our warehousing and securitization business, which focuses on real estate related products. As of December 31, 2012, our high grade credit desk had a portfolio of R\$26.8 billion, representing 79.5% of our total credit portfolio.

The main focus of our high yield credit desk is to identify credit arbitrages on loans and to acquire and capitalize on non-performing loan portfolios and legal claims. These arbitrages can arise in a variety of contexts, including from corporate turnarounds, collateral packages, guarantees or debtor-in-possession financing. This desk is characterized by high yields and higher probability of default when compared to our high grade credit desk. However, these risks are balanced by a comprehensive package of guarantees, low loss given default and moderate concentration on counterparties, usually between R\$10.0 million and R\$70.0 million. As of December 31, 2012, our high yield credit desk had a portfolio of R\$3.4 billion, representing 10.1% of our total credit portfolio.

As of December 31, 2012, our corporate lending credit portfolio amounted to a total of R\$33,769.8 billion. For the year ended December 31, 2012, our revenues from our corporate lending business unit, as reflected in our unaudited adjusted income statement, were R\$563.6 million, representing 10.0% of our total revenues.

Organization

Our corporate lending activities are segmented into two main business lines: (i) origination and (ii) treasury products.

Our origination business activities are focused on identifying demand for loans to large Brazilian and multinational companies with a presence in Latin America. Through our origination platform, we offer a broad range of credit products, including pass through of BNDES credit lines, export financing lines, working capital loans and financing for acquisitions.

Through our treasury products business line, we offer a variety of treasury products to our customers, providing sophisticated and innovative derivative products to help our customers manage market risk exposure to foreign exchange rates and interest rates. Through our structured operations, we also offer additional products for risk management in commodities markets. We believe that our broad range of treasury products offers clients comprehensive coverage for managing their onshore and offshore cash positions in accordance with their liquidity needs and the risk profiles of their businesses. In addition, we have expertise in structuring exclusive funds for our clients, through which we are able to offer additional products from our asset management business unit.

Sales and Trading

Through our sales and trading business unit, we offer financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes. These activities are divided into two segments: (i) FICC (fixed income, currency and commodities) and (ii) equity sales and trading.

For the year ended December 31, 2012, our revenues from our sales and trading unit, as reflected in our unaudited adjusted income statement, were R\$1,516.6 million, representing 27.0% of our total revenues.

FICC (Fixed Income, Currency and Commodities) Sales and Trading

Our FICC area within our sales and trading unit is a large and diversified operation through which we engage in a variety of customer-driven market-making and trading activities.

We offer financial products and services to a diverse group of corporations, financial institutions, investment and pension funds, as well as governments in local and international markets. These products and services include market-making for fixed income instruments, brokerage and clearing services, as well as derivatives, interest rates, foreign exchange and commodities transactions for hedging and trading purposes. We also engage in a variety of customer-driven market-making activities, investing in a broad range of financial instruments, including debt securities, foreign exchange spots, swaps, options, futures, loans and non-deliverable forwards, among others. We believe our willingness and ability to take calculated risks distinguishes us from most of our competitors and substantially enhances our client relationships.

Our financing activities in FICC consist of (i) undertaking a high volume of transactions with modest spreads in large and highly liquid markets, (ii) capitalizing on our strong market relationships and capital position to engage in transactions in less liquid markets in which spreads are generally larger, and (iii) structuring and executing a wide range of transactions linked to fixed income products, currencies and commodities in accordance with our clients' needs.

We provide multi-product brokerage, clearing and custody services in the Brazilian market to a diversified customer base, including hedge funds, pension funds and HNWI. These activities generate commissions through the execution of agency transactions on futures and commodities exchanges. Such agency transactions are executed for our clients located throughout the world.

One of our core FICC activities is market-making in a broad array of securities and financial products. For example, we act as a dealer in currencies for the Central Bank and as primary and specialist dealer in government bonds for the Central Bank and the Brazilian National Treasury. We believe that making markets in a broad range of fixed income, currency and commodity products and related derivatives for our clients is crucial both to maintain our client relationships and to support our underwriting business by providing secondary market liquidity. We believe our clients value counterparties that are active in the marketplace and are willing to provide liquidity and research-based approaches. In addition, we believe that our significant investment in research capabilities and proprietary analytical models are critical to our ability to provide quality advice to our clients. Our research capabilities include

quantitative and qualitative analyses of global economic, currency and financial market trends, as well as credit analyses of corporate and sovereign fixed income securities.

We are active in the listed options and futures markets, and we structure, distribute and execute over-the-counter derivatives on market indices, industry groups and individual company stocks to facilitate customer transactions and our proprietary trading activities. We develop quantitative strategies and render advice with respect to portfolio hedging and restructuring and asset allocation transactions. We also create especially tailored instruments to enable sophisticated investors to undertake hedging strategies and establish or liquidate investment positions. We are one of the leading participants in the trading and development of derivative instruments in Brazil. We are an active participant in the trading of futures and options in BM&FBOVESPA, and we also trade on most of the major exchanges in the United States, Europe and Asia.

Equity Sales and Trading

We make markets and take large positions in certain equity securities to facilitate customers' transactions and to provide liquidity in the marketplace. We operate in most of the major stock exchanges, including BM&FBOVESPA, NYSE, LSE and HKEx.

Acting as an agent, we execute brokerage transactions in equity securities for institutional and individual customers located throughout the world. In recent years, aggregate commissions derived from our brokerage services have increased as a result of growth in transaction volumes on the exchanges, despite the significant impact the global financial crisis had on the world economy. We were one of the six largest equity brokerage houses in Brazil in terms of total volume traded in 2012, according to Data Trader, and have subsidiaries qualified as broker-dealers located in New York and London.

We also provide securities lending services through the borrowing and lending of equity securities to cover our clients' as well as our own short sales and to finance our long positions. Lenders of securities include pension funds, mutual funds, insurance companies, investment advisors, endowments, banks and individuals. We have relationships with certain strategic lenders that provide us with access to large pools of securities.

Our equity trading activities consist of undertaking on behalf of our clients a high volume of transactions with modest spreads in liquid markets such as the over-the-counter market for equity securities. We were the sixth largest broker, by aggregate volume, on BM&FBOVESPA for 2012, according to Data Trader. We also undertake large transactions, such as block trades and positions in securities, in which we benefit from spreads that are generally larger. Finally, we structure and execute complex equity-linked transactions in accordance with our clients' needs.

Research

Our research team provides fundamental research on equity, commodities, interest rates and currencies markets, macroeconomic trends, industries and companies, primarily in Latin America. We have developed an industry-leading position for our investment research products. We believe that our investment research capabilities are a significant factor in our strong competitive position in equity trading.

We believe that major investors worldwide recognize us for our value-added research products, which are highly rated in client polls across the Americas, Europe and Asia. Our equity research team was named the among the best research teams in Brazil from 2006 and 2012 and the best research team in Latin America in 2012, according to *Institutional Investor*. In addition, our fixed income (credit) research team was named among the best research teams in Brazil from 2010 to 2012 and Latin America in 2010, according to *Institutional Investor*.

Our research team provides equity research coverage on approximately 190 companies in Latin America, 15 different business sectors and eight economies. This is accomplished through three groups:

- *the Macroeconomic Research group*, which formulates macroeconomic forecasts for global economic activity and currencies, interest rates and commodities markets;
- *the Equities Research group*, which (i) forecasts equity market returns and provides recommendations on both asset allocation and industry representation, and (ii) provides fundamental analysis, forecasts and investment recommendations for companies and industries in Latin America; and
- *the Fixed Income Research group*, which provides credit analysis and investment recommendations for companies and markets in Latin America.

We do not record any revenues from our research activities. Our research team provides useful information to our business units as well as our clients in connection with a broad range of financial products and services.

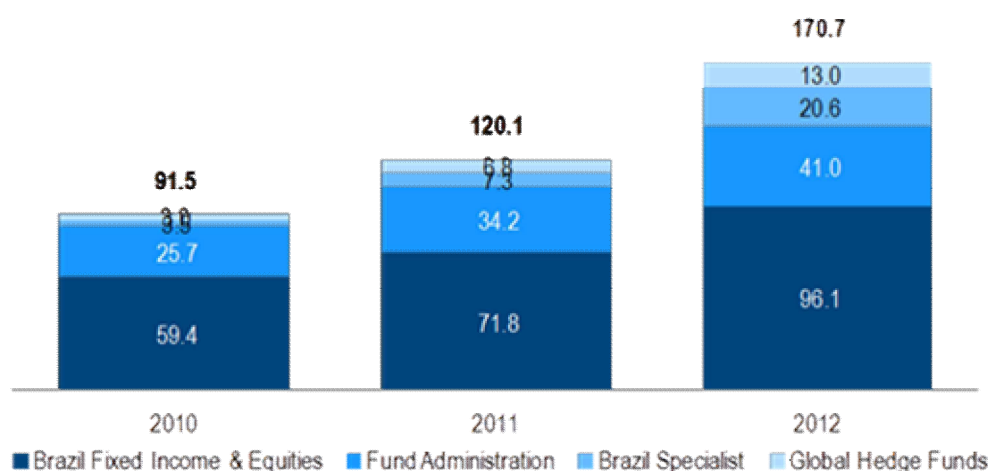
Asset Management

We offer asset management services across major asset classes to Brazilian and international clients. Our products include fixed income, money market, equity, multi-asset and private equity funds (including funds wholly-owned by us and BTGI) both in Brazil and abroad. Our funds are tailored to meet our clients' needs. We have funds targeted at a broader public such as those distributed by third party distribution channels and also exclusive funds or funds restricted to a limited number of clients. In addition, we provide fund administration services to third parties.

As of December 31, 2012, we had R\$121.5 billion in AUM and R\$170.7 billion in AUA, making us the largest asset manager in Brazil excluding retail banks, according to ANBIMA. In addition, according to ANBIMA, as of December 31, 2012, we are the fifth largest financial institution in Brazil in terms of AUM, competing against large retail banks such as Banco do Brasil, Itaú Unibanco, Bradesco, Caixa and Santander, which are each supported by a large network of branches throughout Brazil.

The following graph sets forth our combined AUM and AUA by asset class and the change in our portfolio of AUM and AUA as of each of the specified dates:

AUM by Asset Class (in R\$ billions)



For the year ended December 31, 2012, our revenues from our asset management business unit, as reflected in our unaudited adjusted income statement, were R\$1,190.2 million, representing 21.2% of our total revenues.

Organization

We have continuously adapted the organizational structure of our asset management unit to meet market trends and our clients' needs.

Our asset management business unit is divided into management and fund administration services. Our management services consist of managing the portfolio of the funds on a discretionary basis. Our fund administration services consist of calculating the net asset value of the funds and rendering other services such as monitoring the compliance of the fund with the applicable regulation and providing operational control of the assets underlying the portfolios. We believe that the broad range of services provided by our asset management unit grants us an important competitive advantage.

Our primary clients include HNWI and institutional clients. Our institutional clients include pension funds, corporations, insurance companies and financial intermediaries (third party distribution). We have an extensive and diversified client base and do not significantly depend on any particular client. The diversification of our client base is an essential aspect of our business strategy. As of December 31, 2012, our client base was divided as follows: institutional (13.2%); HNWI (16.1%); financial intermediaries (11.0%); corporations (17.8%); fund services (15.7%); and other (26.2%).

The table below shows the breakdown of our AUM by client type:

	For the year ended December 31,					
	2010	% of total	2011	% of total	2012	% of total
	(in R\$ millions, except percentages)					
HNWI	15.0	16.3%	21.8	18.1%	27.5	16.1%
Institutional	16.6	18.2%	20.5	17.0%	22.6	13.2%
Financial intermediaries (third party distribution)	13.9	15.2%	15.9	13.2%	18.7	11.0%
Corporations	25.0	27.3%	27.7	23.0%	30.3	17.8%
Fund Services	14.6	16.0%	18.5	15.4%	26.8	15.7%
Other	6.4	7.0%	15.9	13.2%	44.7	26.2%
Total	<u>91.5</u>	<u>100.0%</u>	<u>120.1</u>	<u>100.0%</u>	<u>170.7</u>	<u>100.0%</u>

We distribute our funds through the distribution channels of our asset management and wealth management business units as well as through banks, brokerage firms and other financial intermediaries. We have strategic distribution agreements with major banks in Brazil, including Banco Citibank S.A., Banco do Brasil S.A., Itaú Unibanco S.A. and Banco Bradesco S.A., pursuant to which we pay fees for clients originated by these distribution channels.

We consider a strong and well-known asset management unit to be important not only for attracting new clients, but for providing our existing clients with a premium service.

Management of Funds

Our subsidiary BTG Pactual Asset Management is dedicated exclusively to providing asset management services through our investment funds and managed portfolios. The portfolio of products includes Brazilian funds, emerging market funds and global funds, and we have specific products for a wide range of clients. BTG Pactual Asset Management was the largest asset manager in Brazil excluding retail banks, according to ANBIMA, with R\$121.5 billion in AUM as of December 31, 2012.

Our investment products include fixed income and equity funds, equity funds, multi-asset funds, structured funds and private equity funds, both in Brazil and abroad.

Fixed Income and Equity Funds. On December 31, 2012, we had R\$96.1 billion under management invested in fixed income and equity funds.

Global Hedge Funds. On December 31, 2012, we had R\$13.0 billion under management invested in multi-asset funds. These funds have hybrid portfolios composed of a mix of fixed income, equities, currencies, foreign exchange, derivatives, bonds, commodities, mortgages and interest rates.

Our asset management unit also manages ARF, in which BTGI is the sole investor, and ARF II, a parallel fund with an identical strategy in which we invest. These funds invest outside of Brazil in both G-7 and non-Brazilian emerging market securities, opportunistically and on a worldwide basis. As of December 31, 2012, ARF and ARF II had a net asset value of R\$1,076.1 million and R\$3,062.9 million, respectively.

Private Equity Funds. On December 31, 2012, we had R\$20.6 billion under management invested in private equity, through funds or other investment vehicles. Our private equity business pursues long-term investments in equity and debt securities, mostly in privately held companies, purchased in privately negotiated transactions. Our strategy with respect to each private equity business is to invest opportunistically and to build a portfolio of investments that is diversified by industry, product type and transaction structure and type. Our private equity business seeks to leverage our long-standing relationships with companies, investors, entrepreneurs and financial intermediaries around the world to source potential investment opportunities. In addition, our private equity business, including their portfolio companies, have generated business for our other business units, including equity underwriting, leveraged and other financing, fees and merger advisory fees. While potentially risky and frequently illiquid, our private equity activities, when successful, can yield substantial returns on capital for the investors and generate attractive management and performance fees for us.

The following table sets forth the portfolio companies of the private equity business managed by our asset management unit, some of which the BTG Pactual Group invests in through our principal investments unit (see “—Principal Investments.”) and certain details of the main investments:

Name:	Company Name:	Description:
Bravante	Brasbunker Participações S.A.	A leading company in Brazil specialized in providing marine support services, offshore logistics, construction and repair services and environmental protection solutions serving the oil and gas exploration industry. It was previously known as Brasbunker.
CCRR	CCRR Participações S.A.	Industry leader in adhesives, labels and specialty paper markets in Latin America. CCRR is a result of the merger between Colacril, the largest adhesives plant in Latin America, and RR Etiquetas, responsible for the implementation of the barcode system in Brazil.
Estre Ambiental	Estre Ambiental S.A.	One of the leaders in Brazilian waste collection, treatment and disposal sectors. Estre occupies a prominent position in managing landfills and developing diagnostic activities and integrated environmental solutions for waste management.
BR Pharma	Brazil Pharma S.A.	Brazil Pharma is one of the largest pharmaceutical retail companies in Brazil (in terms of number of stores), with more than 800 points of sale throughout Brazil. Brazil Pharma’s business model relies on the operation of drugstores it owns as well as a network of franchisees.
Leader	União de Lojas Leader S.A.	Leader is a Brazilian retailer headquartered in the state of Rio de Janeiro with a focus in the clothing and apparel segment (comprising 73% of Leader’s sales) for consumers primarily from the high growth B and C economic classes in Brazil. Leader had gross retail sales of R\$1.3 billion in 2011.

Name:	Company Name:	Description:
BodyTech	A! BodyTech Participações S.A.	BodyTech is a leading Brazilian fitness chain operating in both the high-end and low-end markets in Brazil, with 31 units in operation and 15 greenfield projects.
UOL	Universo Online S.A.	UOL is Brazil's most popular web portal with 4 million unique visitors per day. It is also Brazil's leader in data center area and online alternative payments (through PagSeguro, the Brazilian equivalent of Paypal).
Contrail	Contrail – Operadora de Transporte Multimodal de Containeres Ltda.	Contrail is a logistics railway company established by Estação da Luz Participações (“EDLP”) to capture the container flow to and from the Santos Port.
LAP	Latin America Power Holding B.V.	LAP is a company focused on the development of renewable energy projects (small and medium hydro plants and wind farms) in Chile, Peru and Panama.
Estapar	Allpark Empreendimentos, Participações e Serviços S.A.	Brazil's largest parking company, with a presence in 15 Brazilian states. Including franchisee parking lots, Estapar's brand is present in over 800 parking lots, including lots in off-street segments, on-street (blue zone electronic) segments, real estate and public and private concessions.
DvBr	Derivados do Brasil S.A.	One of the largest operators of gas stations in southeastern Brazil created following the merger of the networks of Via Brasil and Aster.
Mitsubishi	MMC Automotores do Brasil S.A.	Manufacturer and importer of Mitsubishi vehicles in Brazil, selling approximately 60,000 vehicles in 2011.
Suzuki	SVB Automotores do Brasil S.A.	Importer of Suzuki vehicles in Brazil, selling approximately 8,000 vehicles in 2011.
Intesa	Integração Transmissora de Energia S/A	695 kilometers of strategically important transmission lines in Brazil's electric power grid located in the States of Goiás and Tocantins. The project was granted a concession of 30 years following a public auction held in 2005 and became operational in April 2008.
Gera Amazonas	Geradora de Energia do Amazonas S/A	A thermal power plant with an installed capacity of 85.4MW located in the north of Brazil (in operation since 2006) strategic in ensuring electrical supply in the northern region of Brazil and operating with a 20-year power purchase agreement with Amazonas Energia (local distribution company) granted through public auction.
Tevisa	Termelétrica Viana S/A	164MW of installed capacity in the State of Espírito Santo (in operation since January 2010) with a load factor of 96.8%. Fueled by heavy fuel oil supplied by Petrobras and BR Distribuidora, the project is operating with a 15-year power purchase agreement with 36 distribution companies awarded through the A-3 energy auction in 2007.
Gera Norte	Geradora de Energia do Norte S/A	Thermal power plants located in the State of Maranhão, with installed capacity of 331.74MW (in operation since January 2010). Operating with a 15-year power purchase agreement with 36 distribution companies awarded through the A-3 energy auction in 2007.

Name:	Company Name:	Description:
PCH Braço	Pequena Central Hidrelétrica Rio do Braço S.A.	Small hydroelectric power plant with installed capacity of 11.52MW located in the State of Rio de Janeiro (in operation since January 2011) with an occupancy rate of 69.6%.
Linhares Geração	Linhares Geração S/A	Gas power plant with 204MW of installed capacity located in the State of Espírito Santo (in operation since December 2010). Operating with a 15-year power purchase agreement with 30 distribution companies awarded through the A-3 energy auction in 2008.
Ersa	CPFL Renováveis (current)	CPFL Renováveis explores opportunities in renewable energy, with a portfolio totaling 4,438MW comprised of small (up to 30MW) and medium (up to 200MW) sized plants, including 34 small hydropower plants, 8 wind farms and 4 biomass power plants in operation, 1 small hydropower plant, 25 wind farms and 4 biomass power plants in construction and 5 small hydropower plants and 11 wind farms in development.
Santé	Santé Alimentação e Serviços S.A.	Company in food industry specializing in the outsourcing of industrial kitchens.
Gratícia	Gratícia Produtos Alimentícios S.A.	Fleet outsourcing company focused on the private sector in the northeast region of Brazil and also operates car rental and fleet management businesses.
Frotamais	MAIS Participações S.A.	Specialty food company manufacturing snack foods with strong market presence in the State of Pernambuco and other northeastern states of Brazil.
Beat	ACS Omicron Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 50m ² apartments at an average price of R\$450.0 thousand each. The total potential value of the project if all units are sold (<i>valor geral de venda</i>), or VGV, is approximately R\$62.0 million. Beat is currently in its initial phase of construction with 85% of the units already sold.
MaxHaus	Maxcasa XIX Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 70m ² apartments at an average price of R\$600.0 thousand each. The VGV for the project is approximately R\$106.0 million. MaxHaus is currently in its initial phase of construction with 51% of the units already sold.
UpTown	Warehouse 1 Empreendimentos Imobiliários S.A.	A commercial real estate project in Rio de Janeiro selling spaces for stores, storage and other commercial purposes ranging in size from 25m ² to larger warehouse spaces. The VGV for the project is approximately R\$380.0 million. Uptown is currently in its initial phase of construction with 90% of units already sold.

We have established a successful track record of private equity activities specifically in the energy and power and real estate sectors.

Our private equity activities include 35 professionals focusing on several key industries including consumer products, energy, healthcare, power, real estate, retail, technology and transportation. Our investment professionals identify, manage and sell investments on behalf of our private equity funds. In addition, our private equity professionals work closely with other of our business units, where they can benefit from the expertise of specialists in debt and equity research, investment banking, leveraged finance and equity capital markets.

Our real estate investment team identifies and executes investment opportunities in diverse projects and assets, including residential and commercial construction projects, shopping centers and commercial buildings for lease. The team is made up of experienced real estate and finance professionals,

allowing a detailed analysis of the economic viability of each project or asset in order to be able to select the best investment opportunities.

Fund Administration or Fund Services

Through BTG Pactual Serviços Financeiros, we provide a broad range of financial services to our clients in respect of both onshore and offshore funds, including:

- calculation of net asset value, which is the cumulative market value of the fund's assets net of its liabilities;
- asset pricing;
- registrar and transfer agent services;
- control of the fund's fees (management and performance fees) and other expenses;
- reporting on the fund's portfolio composition;
- preparation of monthly reports for the fund's clients; and
- calculation of any tax that may be imposed on the funds.

As administrator of the funds, we are also responsible for providing any information regarding the funds to regulators such as the Central Bank and the CVM and to ANBIMA as the self-regulatory authority.

According to data published by ANBIMA, on December 31, 2012, BTG Pactual Serviços Financeiros was the seventh largest fund administrator in Brazil with R\$118.2 billion in AUA.

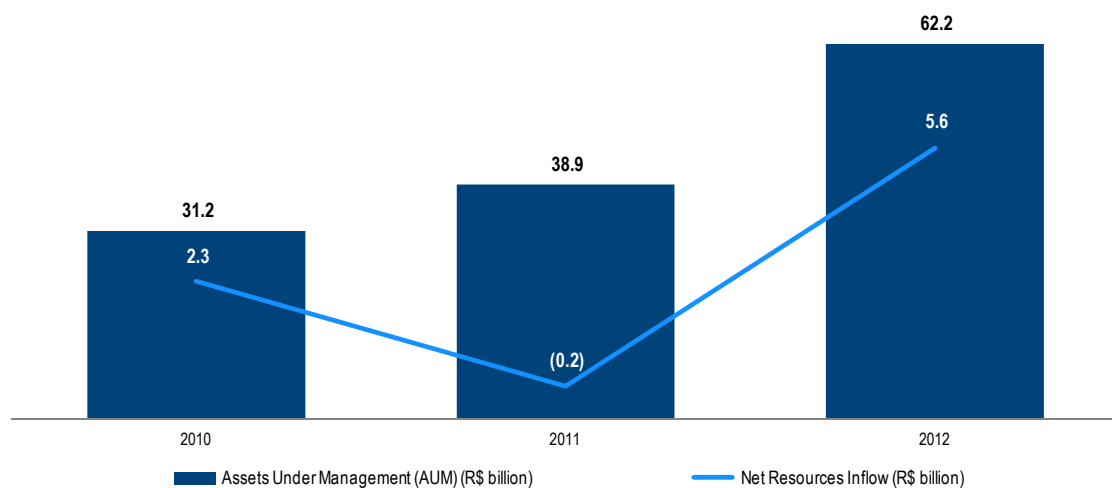
Wealth Management

We provide investment advisory and financial planning services and offer investment products to HNWI primarily located in Brazil. These services are provided through separately managed accounts as well as multi-investor vehicles across diverse financial asset classes, through both funds managed by our asset management team and funds managed by other financial institutions or asset managers. We also offer other services to our wealth management clients such as wealth planning, loans and bank guarantees and family office services.

As of December 31, 2012, our wealth management unit managed approximately R\$62.2 billion in assets. According to data published in a private banking survey by Euromoney in 2013, BTG Pactual Wealth Management was ranked first in the category of best private banking services (overall) provider in Brazil.

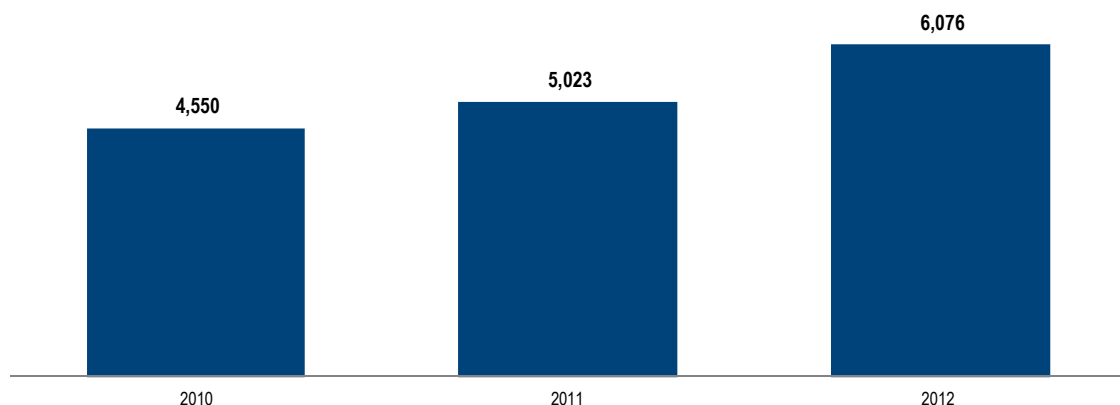
For the year ended December 31, 2012, our revenues from wealth management business unit, as reflected in our unaudited adjusted income statement, were R\$201.7 million, representing 3.6% of our total revenues.

The following graph sets forth an overview of our wealth management portfolio and net inflows/outflows as of each of the dates indicated below:



On December 31, 2012, we had 6,076 wealth management clients, representing 2,528 economic groups for whom we managed an average of R\$20.0 million each. We have an extensive and diversified client base and do not significantly depend on any particular client. The diversification of our client base is an essential aspect of our business strategy.

The graph below shows the number of clients in our wealth management portfolio at the dates indicated:



Organization

Our wealth management model is based on customized and pro-active client service through our specialized client advisors. Each client advisor attends to a limited number of clients, offering a range of financial products and personalized services according to each client's needs. Our client advisors are expected to understand their clients' needs, financial expectations and risk tolerance. Periodic reviews allow our client advisors to help clients monitor their portfolios and adapt to changing conditions. Client advisors are principally organized by client market, which allows them a higher level of client focus. We believe that this approach fosters long-term client relationships.

Our client advisors retain primary responsibility for increasing the penetration of wealth management service products within our existing customer base by introducing products and services and for generating new clients throughout Brazil.

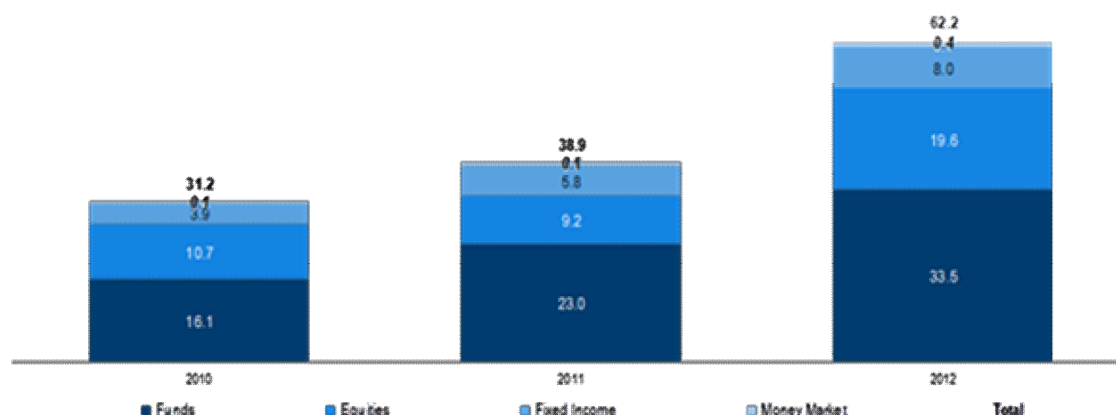
We provide a number of asset-based, transaction-based and other services to clients. Asset-based services include custodial services, deposit accounts, loans and fiduciary services, and transaction-based services include trading and brokerage and investment fund services. Wealth management also provides financial planning and consulting services. These services include establishing proprietary trusts and foundations, the execution of wills, corporate and personal tax structuring and tax efficient investments.

Financial Planning and Wealth Management. Develops integrated comprehensive wealth management services in the form of tax and estate planning, liquidity and retirement lifestyle planning, insurance products, real estate advisory services and a variety of sophisticated capital enhancement and asset protection strategies.

Financial Advisory. Provides advisory services and solutions to clients who are entrepreneurs or company owners, including funding options and advice on structuring mergers and acquisitions.

Family Office. Provides a consolidated position of investments with a view to provide complete tax and estate planning advice.

The following graph shows information concerning WUM, presented in R\$ billions, by asset class in wealth management as of December 31, 2012:



PanAmericano

In January 2011, we entered into an agreement to purchase 100% of the shares in Banco PanAmericano held by Grupo Silvio Santos for R\$450.0 million, representing a 37.64% stake in Banco PanAmericano (composed of 51.00% of its voting shares and 21.97% of its non-voting shares). The transaction was approved by the Central Bank and closed on May 27, 2011. The acquisition triggered a requirement that we commence a tender offer to purchase additional shares of Banco PanAmericano held by its minority shareholders. This tender offer was completed on September 16, 2011, resulting in an acquisition of an insignificant amount of additional non-voting shares of Banco PanAmericano. As a result, we maintained our 37.64% stake in Banco PanAmericano's total outstanding equity. In connection with this acquisition, we and CaixaPar, who owns a 36.56% interest in Banco PanAmericano's total capital stock, entered into a shareholders agreement which establishes the conditions for the shared control of Banco PanAmericano. In addition, CaixaPar reiterated its commitment to preserve its strategic alliance with Banco PanAmericano by entering into a cooperation agreement under which CaixaPar has agreed to acquire credits originated by, and invest in deposits issued by, Banco PanAmericano, thus helping to support its future business. Banco PanAmericano and CaixaPar also intend to expand the range of the

financial products and services they offer through leveraging their distribution channels. We believe the agreement will strengthen our partnership with CaixaPar.

The banking supervision and compliance with regulatory capital requirements of Banco PanAmericano are performed and measured on a segregated basis from those of ours. Accordingly, we calculate our regulatory capital without giving effect to the assets and liabilities, risks and financial position of Banco PanAmericano, and we do not perform the proportional consolidation of Banco PanAmericano into our balance sheet. This results in each of us and Banco PanAmericano continuing to calculate the respective regulatory capital requirements on a stand-alone basis, as two independent banking conglomerates.

In November 2010, prior to our acquisition, Banco PanAmericano disclosed that a series of accounting inconsistencies had been uncovered at Banco PanAmericano which resulted in losses totaling R\$2.5 billion. Upon such announcement, Grupo Silvio Santos and CaixaPar sought to prevent new inconsistencies by electing a new management team at Banco PanAmericano. In addition, Grupo Silvio Santos agreed to make Banco PanAmericano whole for such losses by injecting R\$2.5 billion of capital. Subsequently, additional financial irregularities totaling R\$1.3 billion and other adjustments totaling R\$500 million were identified. As a consequence, on January 31, 2011, Grupo Silvio Santos injected an additional R\$1.3 billion into Banco PanAmericano and agreed to sell its stake in Banco PanAmericano to us. We elected new officers and directors of Banco PanAmericano in April 2011.

As a result of the aforementioned problems, which demonstrated significant weaknesses and irregularities of the existing accounting systems and internal controls of the institution, Banco PanAmericano is currently executing important investments in technology and processes in order to improve operational and competitive conditions of the bank.

Banco PanAmericano generated a consolidated net income of R\$67.0 million in 2011 and consolidated net loss of R\$495.9 million in 2012. However, there can be no assurance that it will not generate net losses during 2013 or thereafter. We record the results of operations from Banco PanAmericano using the equity method of accounting, pursuant to which our share of Banco PanAmericano's net income or net losses, as deducted by accumulated loss adjustments relating to previous periods, is recognized in our income statement as equity pick-up from associates. Banco PanAmericano recorded substantial adjustments to accumulated losses in 2012. Accordingly, we recorded losses of R\$27.2 million in connection with the Banco PanAmericano equity pick-up for 2011 and R\$160.3 million in losses in 2012. The management of Banco PanAmericano is taking several initiatives intended to improve Banco PanAmericano's profitability and avoid any further accumulated loss adjustments.

In April 2011, we acquired senior quotas of a credit receivable investment fund (FIDC), representing 80% of the fund's capital. The FIDC is composed exclusively of credits originated by Banco PanAmericano in the total amount of approximately R\$3.5 billion. Such credits were previously acquired from Banco PanAmericano indirectly by Fundo Garantidor de Crédito, or FGC, who established the FIDC and retained ownership of subordinated quotas representing 20% of FIDC's capital. In December, 2011, we acquired the subordinated quotas of the FIDC, as a result increasing our ownership in the FIDC to 100%.

On January 18, 2012, Banco PanAmericano's shareholders approved a capital increase in an amount of up to R\$1.8 billion, with an issue price of R\$6.05 per share. We and CaixaPar committed to exercise preemptive rights for an aggregate amount of R\$1.335 billion, with our share amounting to R\$677.0 million. However, we agreed that, upon the request of TPG-Axon, we would transfer part of our preemptive rights with respect to a total of R\$182 million of our R\$677 million commitment. TPG-Axon elected to exercise such rights and, on April 17, 2012, subscribed for preferred shares representing, after the capital increase, 12.0% of Banco PanAmericano's preferred shares and 5.55% of its total capital stock, thus reducing our contribution to R\$495.4 million. Following such exercise, we maintained our 51.0% equity interest in Banco PanAmericano's common shares, and we and CaixaPar continue to co-control Banco PanAmericano pursuant to the terms of a shareholders agreement which establishes the conditions for our shared control.

On January 31, 2012, we and Banco PanAmericano entered into definitive agreements to purchase 100% of the shares of BFRE. The total purchase price (subject to adjustment) was approximately R\$1.21 billion (without including the R\$335 million purchase price of certain assets by us described below), of which R\$940 million was paid by PanAmericano and R\$270 million was paid by us. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The first such company, which we acquired, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In addition, we paid approximately R\$335 million (subject to adjustment) to purchase certain real estate and equity investment funds held by BFRE. The remainder of the businesses conducted by BFRE will remain in the second company, which was purchased by Banco PanAmericano.

We believe that the actions described above will enhance the capital structure of Banco PanAmericano and support its growth plans. However, it is possible that the initiatives to return Banco PanAmericano to profitability may not meet the expected results and that new capital injections at Banco PanAmericano will be required. See “Risk Factors—Risk Factors Relating to Our Business and Industry—Our inability to successfully implement our strategy relating to, or to realize the intended benefits from, our recent acquisition of a co-controlling interest in Banco PanAmericano or Banco PanAmericano’s acquisition of BFRE could have a material adverse effect on us.”

For the year ended December 31, 2012, we recorded a loss from our PanAmericano business unit, as reflected in our adjusted income statement, of R\$244.5 million.

Below is a description of the main activities of our PanAmericano unit:

Consumer finance and personal loans

Banco PanAmericano provides direct consumer credit (*crédito direto ao consumidor*) and personal credit to individuals in Brazil in the lower to middle income brackets for the acquisition of certain high-cost products, including light and heavy-duty vehicles and motorcycles, real property, furniture, building materials, household appliances, electric and electronic products, and to finance expenses related to tourism. Personal loans are similar to direct consumer credit except that they are not granted for a specific purpose and can be used for general purposes. Personal loans are generally supported by third party guarantees, while direct consumer credit is usually guaranteed by conditional sale of real property or vehicles and post-dated checks.

Payroll deduction loans

Banco PanAmericano provides payroll deduction loans, a type of retail loan where repayments are deducted directly from the salary payments of employees working at public sector entities which have agreements with Banco PanAmericano. Banco PanAmericano has agreements with several public entities, including the states of Rio de Janeiro, Ceará, Goiás, Acre, Mato Grosso, Minas Gerais, Amazonas and Paraná; civil servants and pensioners of the administration of certain local and state capitals, including Goiânia, Rio de Janeiro, Florianópolis, Belo Horizonte, Cuiabá and the INSS.

Credit Cards

In 2011, Banco PanAmericano implemented a number of initiatives intended to improve its credit card base, including the redesign of its activation procedures and improvements to its Maxi Bônus rewards program and the loan recovery processes. Banco PanAmericano also implemented a series of other measures to reduce expenses and increase operating margins, such as renegotiations with co-branded card partners, the implementation of more comprehensive and structured lending models and rationalization of the investments to expand its base. All these efforts led to a decrease in the ratio of administrative expenses to net revenue in 2011.

In 2011, Banco PanAmericano issued 608.8 thousand new credit cards, including additional cards under the Visa and MasterCard brands. Banco PanAmericano’s credit card account base, which includes

institutional and hybrid cards, ended 2011 with 2.0 million accounts, equivalent to 3.0 million issued cards. In 2011, the volume of transactions on Banco PanAmericano credit cards was R\$3.0 billion.

In August 2011, Banco PanAmericano competed against other Brazilian credit card issuers for operational quality awards from the Visa brand, open to issuers with more than twelve million transactions per year, and won in two of the award's three categories, namely the highest efficiency rate in chargebacks and the lowest request rate for copies of proof-of-sales receipts.

In September 2011, Banco PanAmericano completed the integration of the Rêv Worldwide platform with its branch network and Caixa lottery outlet network, which enabled the creation of the largest recharging network for prepaid multiuse cards in Brazil.

Insurance

Banco PanAmericano's main insurance products are (i) credit life insurance, (ii) mortgage insurance, (iii) group life insurance, and (iv) mandatory insurance for personal injury caused by motor vehicles (*Danos Pessoais Causados Por Veículos Automotores de Vias Terrestre*), or DPVAT, which is operated by a pool of insurers who underwrite DPVAT on a joint liability basis.

As a policy, Banco PanAmericano passes risks in excess of R\$100 thousand on to other insurers or reinsurers.

Corporate (Empresas Department)

Banco PanAmericano's Empresas Department was launched in 2009 with a focus on guaranteed account and working capital financing operations. As of December 31, 2012, Banco PanAmericano's portfolio of loans and financings for corporate clients totaled approximately R\$1,663.7 million to approximately 212 corporations. Banco PanAmericano's Empresas Department is separate from our corporate lending business unit.

Principal Investments

Our principal investments includes proprietary investment activities involving a wide range of financial instruments, including merchant banking and real estate investments in Brazil, as well as a variety of financial investments in global markets. Our principal investments are primarily managed by our asset management group.

We have proprietary investments in a diversified range of financial instruments across multiple asset classes and geographic regions. Our principal investments teams responsible for the management of such investments are located in São Paulo, Rio de Janeiro, New York, London and Hong Kong. These teams focus on both developed and emerging markets, allocating capital across various underlying strategies that include a mix of emerging markets and global macro themes, including fixed income, equities, currencies, foreign exchange, derivatives, bonds, commodities and mortgages.

Our principal investments take on a variety of risks and devote substantial resources to benefiting from this exposure. We leverage our analysis of information in order to take advantage of perceived disparities in the value of assets in trading markets and of macroeconomic, company and industry-specific trends.

Our principal investments also involve arbitrage activities, by investing in a broad range of financial and equity instruments. The strategy of activities is based on making global investments through a diversified portfolio across different markets and event categories. Our investment decisions are the product of rigorous, fundamental, situational and regulatory and legal analysis.

For the year ended December 31, 2012, our revenues from our principal investments business unit, as reflected in our unaudited adjusted income statement, were R\$1,356.9 million, representing 24.1% of our total revenues.

Our real estate investments

Our real estate investments consist of investments held in the following portfolio companies:

Company Name	Description	Investment Vehicle	Ownership Stake
BR Properties S.A.	One of the most important market participants in the Brazilian real estate properties segment, with a focus on the development, acquisition, leasing and sale of commercial and industrial/logistics real estate properties in Brazil. BR Properties is the surviving company following the merger of BR Properties and One Properties on March 29, 2012. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Establishment of One Properties and Merger into BR Properties.”	Banco BTG Pactual S.A.	27.40%
BW Properties S.A.	A real estate development company focused on commercial development and long-term real estate investments. It was formed following our joint investment with WTorre Properties S.A., and is currently developing two real estate projects in rapidly growing regions of São Paulo. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Establishment of BW Properties S.A.”	Banco BTG Pactual S.A.	67.49%
ACS Omicron Empreendimentos Imobiliários S.A.	Residential real estate project in São Paulo selling 50m ² apartments at an average price of R\$450 thousand each. The total potential value of the project if all units are sold (valor geral de venda), or VGV, is approximately R\$62 million. Beat is currently in its initial phase of construction, with 85% of the units already sold.	Banco BTG Pactual S.A.	44.74%
Maxcasa XIX Empreendimentos Imobiliários S.A.	Residential real estate project in São Paulo selling 70m ² apartments at an average price of R\$600 thousand each. The VGV for the project is approximately R\$106 million. MaxHaus is currently in its initial phase of construction, with 51% of the units already sold.	Banco BTG Pactual S.A.	50.00%
Warehouse 1 Empreendimentos Imobiliários S.A.	A commercial real estate project in Rio de Janeiro selling spaces for stores, storage and other commercial purposes ranging in size from 25m ² to larger warehouse spaces. The VGV for the project is approximately R\$380 million. Uptown is currently in its initial phase of construction, with 90% of units already sold.	Banco BTG Pactual S.A.	35.00%

Our merchant banking investments

While the merchant banking activities for the BTG Pactual Group are typically conducted through BTGI, we are also engaged in certain merchant banking activities, consisting primarily of minority investments in certain of the portfolio companies of the private equity funds managed by our asset management unit. (see “—Asset Management—Management of Funds.”)

As of December 31, 2012 our merchant banking consisted of investments in the following companies:

Company Name	Description	Investment Vehicle	Direct or indirect ownership stake
SETE Participações S.A.	Company created to procure, own and charter drilling rigs that will be used by Petrobras in the exploration of the deepwater Pre-Salt layer oil discoveries. Based on the receivables from the existing contracts, it is considered one of the largest drilling companies in the world.	Infrastructure fund and other vehicles	17.05%
Integração Transmissora de Energia S.A	695 kilometers of strategically important transmission lines in Brazil’s electric power grid located in the States of Goiás and Tocantins. The project was granted a concession of 30 years following a public auction held in 2005 and became operational in April 2008.	FIP Brasil Energia	2.35%
Geradora de Energia do Amazonas S.A	A thermal power plant with an installed capacity of 85.4MW located in the north of Brazil (in operation since 2006), which the BTG Pactual Group believes is strategically important in ensuring electrical supply in the northern region of Brazil and operating with a 20-year power purchase agreement with Amazonas Energia (local distribution company) granted through public auction.	FIP Brasil Energia	2.31%
Termelétrica Viana S.A	164MW of installed capacity in the State of Espírito Santo (in operation since January 2010) with a load factor of 96.8%. Fueled by heavy fuel oil supplied by Petrobras and BR Distribuidora, Tevisa operates with a power purchase agreement of 15 years with 36 distribution companies awarded through the A-3 energy auction in 2007.	FIP Brasil Energia	4.61%
Geradora de Energia do Norte S.A	Thermal power plants located in the State of Maranhão, with installed capacity of 331.74MW (in operation since January 2010). Operating with power purchase agreement of 15 years with 36 distribution companies awarded through the A-3 energy auction in 2007.	FIP Brasil Energia	1.15%
Pequena Central Hidrelétrica Rio do Braço S.A.	Small hydroelectric power plan with installed capacity of 11.52MW located in the State of Rio de Janeiro (in operation since February 2011) with an occupancy rate of 69.6%.	FIP Brasil Energia	4.61%

Linhares Geração S.A	Gas power plant with 204MW of installed capacity located in the State of Espírito Santo (in operation since December 2010). PPA's of 15 years with 30 distribution companies awarded through the A-3 energy auction in 2008.	FIP Brasil Energia	3.61%
CPFL Renováveis (current)	CPFL Renováveis explores opportunities in renewable energy, with a portfolio totaling 4,438MW comprised of small (up to 30MW) and medium (up to 200MW) sized plants, including 34 small hydropower plants, four wind farms and three biomass power plants in operation, one small hydropower plant, 25 wind farms and four biomass power plants in construction and five small hydropower plants and 11 wind farms in development.	FIP Brasil Energia	0.35%
Santé Alimentação e Serviços S.A.	Company in food industry specializing in the outsourcing of industrial kitchens.	Nordeste Empreendedor FMIEE	2.74%
Gratícia Produtos Alimentícios S.A.	Fleet outsourcing company focused on the private sector in the northeast region of Brazil and also operates car rental and fleet management businesses.	Nordeste Empreendedor FMIEE	1.05%
MAIS Participações S.A.	Specialty food company manufacturing snack foods with strong market presence in the State of Pernambuco and other northeastern states of Brazil.	Nordeste Empreendedor FMIEE	3.69%

Celfin

On November 13, 2012, we consummated a transaction in which we purchased all of the outstanding shares of Celfin, a leading financial services and brokerage firm in Chile that also operates in Peru and Colombia. We believe our transaction with Celfin represents a milestone in our effort to replicate our history of success in Brazil throughout Latin America, in particular in the Andean region, and uniquely positions us as a leader throughout the region.

Celfin's History and Organization

Celfin was founded in 1988 by three partners, Jorge Errázuriz, Juan Andrés Camus and Mario Lobo, as a research and asset management company. Shortly thereafter, Celfin was appointed as sub-advisor and local administrator for the Chile Fund Inc., the largest vehicle for foreign currency investments in Chile, which is listed on the NYSE.

Celfin soon expanded its operations to include investment banking, partially as a result of its relationship with Salomon Brothers Inc., and in 1990, Celfin participated in the ADR offering of Compañía de Telecomunicaciones de Chile, which was the first ADR issuance by a Chilean company. This transaction led to Celfin's participation in numerous other equity offerings and listings by Chilean issuers.

In 1997, Celfin acquired a brokerage house and, shortly thereafter, became the leading brokerage house in Chile, according to the Santiago Stock Exchange (*Bolsa de Comercio de Santiago*), with a market share ranging from 11.5% and 20.7% from 2009 to 2012.

Over the following ten years, Celfin continued to grow, eventually expanding its business to include additional investment banking, asset management and wealth management operations. In 2007, Celfin initiated its expansion throughout the Andean region and opened an office in Lima, Peru. Celfin is one of the leading brokerage houses in Peru, with an average market share of approximately 8.2% for 2012, according to the principal securities regulator in Peru (*Superintendencia de Mercado de Valores*). In 2010,

Celfin continued its regional expansion by opening an office in Medellin, Colombia, and obtained a brokerage license in Colombia in October 2011.

Prior to the consummation of our purchase of Celfin and as of December 31, 2011, Celfin had six partners and two controlling shareholders, Juan Andrés Camus and Jorge Errázuriz.

Celfin's Business Areas

Celfin has a comprehensive portfolio of products, and upon completion of the acquisition, we intend to further expand its operations to include many of the additional products and services we currently offer in Brazil. Celfin's main business units are:

Asset Management

Celfin is one of the leading asset managers in Chile, with over US\$4.3 billion in assets under management as of December 31, 2012. Celfin's main clients include Chilean pension funds, insurance companies, family offices and HNWI. Celfin's principal asset management products include publicly traded funds, private investment funds and discretionary portfolios. As part of its offering of publicly traded funds, Celfin manages closed-end funds, which mainly target HNWI and institutional investors, and open-ended funds, which are primarily mutual funds targeted to corporations and individuals. Celfin's private investment funds and discretionary portfolios primarily target individuals. The investment strategy of such funds and portfolios is to invest largely in Latin American and emerging debt and equity capital.

In addition, Celfin manages real estate investments in Chile on behalf of its clients through closed-end and private investment funds. Real estate funds managed by Celfin own several residential and commercial properties, including office buildings, in Santiago, Chile and from time to time enter into joint ventures for residential development projects. In 2011, Celfin launched a real estate, mining and forestry fund focused on making investments in real assets and financial assets in those sectors in Chile.

Wealth Management

Celfin is a leading wealth management firm in Chile, with US\$5.6 billion in wealth under management as of December 31, 2012. The wealth management group is divided in two subdivisions, one specializing in HNWI and the other specializing in retail clients. Within its wealth management unit, Celfin offers brokerage and execution services, advisory services and discretionary portfolio management. Celfin has an independent and dedicated investment team, which includes specialists in different asset classes who provide tailored services and advice to its wealth management clients. Celfin is actively expanding its wealth management services in Peru.

Investment Banking

Celfin's investment banking group specializes in M&A, equity and debt capital markets and project finance. In the capital markets area, Celfin is one of the largest firms in Chile, with over US\$10.0 billion in executed equity transactions, US\$5.0 billion in M&A transactions and US\$4.0 billion in debt and capital markets transactions from 2006 through 2012. Celfin's most significant recent capital markets transactions include advising on the sale of 28.0% of Lan Airlines for US\$1.5 billion in 2010 and the capital increase of Compañía Sud Americana de Vapores (CSAV) of more than US\$2.0 billion in three different tranches, the most recent of which closed in February 2012. Celfin is also an active participant in local and cross-border M&A, having served as advisor in connection with the US\$555.0 million acquisition of Cementos Melon by the Brescia Group of Peru and the acquisition of Cintra Chile by ISA of Colombia in 2010. In the debt capital markets, Celfin has served as underwriter or lead manager in transactions that have raised more than US\$4.0 billion of capital for its clients from 2008 through 2012. In 2011, Celfin also created a project finance group specializing in advising and raising capital for infrastructure projects throughout Latin America.

Celfin has received numerous awards from various publications in recent years, including from *Diario Financiero*, a leading business newspaper in Chile, for being the best investment bank in Chile in

2010 and 2011. In addition, Celfin was awarded best financial institution in Chile by *Latin Finance* and *World Finance* in 2010 and 2011, respectively and best financial institution in Chile by *World Finance* in 2012 as well as best wealth management institution in Chile by Euromoney in 2012.

Sales and Trading

Celfin is one of the leading brokerage house in the Andean region, with a physical presence in Chile, Peru, and Colombia. Since 2001, Celfin has been among the top three brokers in Chile in terms of volume traded, reaching 16.1% market share as of December 2012, according to the Lima Stock Exchange (*Bolsa de Valores de Lima*). Celfin's main clients include local and foreign institutional investors and individuals. In Peru, Celfin is also a leading broker in terms of volume traded, with a market share of approximately 8.2% as of December 31, 2012. Although Celfin only recently commenced brokerage operations in Colombia, it has gained a significant position with respect to institutional investors in Colombia. While Celfin has a strong regional presence in equity brokerage, it has been historically less active in the fixed income brokerage market, where it competes with commercial banks.

As part of its Fixed Income, Currency and Commodities (FICC) group, Celfin trades local government and corporate bonds for third parties, and to a lesser extent, for its own account. Celfin is also active in foreign exchange trading, spot and forward trading for individuals and corporations and simple derivatives intermediation. In addition, Celfin's FICC team structures notes for its clients.

Institutional Fund Distribution

Celfin provides research and other services to institutional investors in the Andean region, mainly pension funds, to assist them in making investments outside of Chile, Peru and Colombia. Celfin is one of the largest participants in this market, with a market share of 18.9% as of December 2012. As of December 31, 2012, the market value of products distributed by Celfin on behalf of foreign asset managers and held by institutional investors in Chile, Peru and Colombia was in excess of US\$11.0 billion.

Bolsa y Renta

On December 20, 2012, we consummated a transaction in which we purchased all of the outstanding shares of Bolsa y Renta, one of Colombia's largest equity brokerage firms in terms of transaction volume. We believe that our acquisition of Bolsa y Renta is an important step in our efforts to achieve substantial additional geographic diversification.

Bolsa y Renta's History and Organization

Bolsa y Renta, Comisionista de Bolsa, was founded by Luis Carlos Vargas Molina in Medellín, Colombia in 1953 to trade Colombian stocks and bonds. Subsequently, it operated under different names until 1992, when it adopted its current name, Bolsa y Renta S.A. Since its establishment, the firm has provided high quality products and services to the Colombian market and has sought to develop highly qualified talent through the implementation of a results oriented philosophy that stresses high ethical principles.

Bolsa y Renta is known for its involvement in the development of the Colombian stock market. Notably, Bolsa y Renta was a founding member of the "Bolsa de Valores de Medellín" in 1961 and also participated in the establishment of the "Bolsa de Valores de Colombia" in 2001.

In 2006, a new group of senior executives acquired a percentage of Bolsa y Renta, with the goal of implementing an innovative business plan based upon cutting-edge market strategies that both supported the firm's traditional activities in the Colombian stocks and bonds market and also aimed at providing new products such as funds, alternative investments and private portfolio management.

In 2008, Bolsa y Renta expanded its operation to Bogotá. Shortly thereafter, the firm began operations in the Colombian foreign exchange market and also began to trade in the derivatives market.

In 2010, Bolsa y Renta led ConConcreto S.A.'s initial public offering in Colombia as well as Banco Davivienda S.A.'s offering. In 2011, the firm led Grupo Nutresa's offering and expanded its business to include investment banking operations.

Prior to the consummation of our purchase of Bolsa y Renta, it had 26 partners, and as of December 31, 2012, Bolsa y Renta had 265 employees and 3 offices in Colombia (located in Medellín, Bogotá and Ibagué).

Business Model and Financial Highlights

Bolsa y Renta is an investment bank, asset manager and wealth manager with a business model focused on satisfying the needs of individual, institutional and corporate clients through the application of disciplined and well-rounded investment processes and client oriented strategies. Bolsa y Renta's products include equity, capital market funds, alternative funds, private portfolios, investment banking and international products. Bolsa y Renta also provides additional services such as equity research and online trading.

Bolsa y Renta has consistently been a major player on the Colombian stock market, ranked as one of the largest broker dealer by volume of equity transactions in Colombia, with a portfolio of US\$3.4 billion in wealth under management and US\$721.2 million in asset under management as of December 31, 2012.

We believe Bolsa y Renta also has an internationally recognized team of research analysts and is recognized for having the largest economic research coverage in the Colombian stock market.

Competition

The financial services industry, and all of the businesses with which we operate, are intensely competitive, and we expect them to remain so. Our competitors are other investment banking and financial advisory firms, broker-dealers, commercial and universal banks, insurance companies, investment management firms, hedge fund management firms, merchant banking and private equity firms and other financial institutions. We compete with some of our competitors globally and with others on a regional, product or niche basis. We compete on the basis of a number of factors, including quality of personnel, transaction execution skills, investment track record, quality of client service, individual and institutional client relationships, absence of conflicts, range of products and services, innovation, brand recognition and business reputation.

In recent years there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wider range of products than we offer and have more extensive investment banking, principal investments, asset management and wealth management services, which may enhance their competitive position. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors.

We also face intense competition in attracting and retaining qualified employees and other personnel in each of our business units. We compete on the level and nature of compensation and equity-based incentives for key employees and other personnel. Our ability to continue to compete effectively in each of our business units will depend upon our ability to attract new highly qualified employees and retain and motivate our existing talent.

We believe that our main competitors (including their affiliates) across the seven business units in which we operate include the following:

Investment Banking. Banco do Brasil S.A., Banco Bradesco BBI S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco

Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A., N M Rothschild & Sons Limited and Banco Santander (Brasil) S.A.;

Corporate Lending. Banco do Brasil S.A., Banco Bradesco BBI S.A., Banco Santander (Brasil) S.A., Itaú Unibanco S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A. and HSBC Bank Brasil S.A. Banco Múltiplo;

Sales and Trading. Banco do Brasil S.A., Banco Bradesco S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A. and Banco Santander (Brasil) S.A.;

Principal Investments. Banco do Brasil S.A., Banco Bradesco BBI S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A. and Banco Santander (Brasil) S.A.;

Asset Management. Banco do Brasil S.A., Itaú Unibanco S.A., BRAM Bradesco Asset Management S.A. DTVM, HSBC Bank Brasil S.A. Banco Múltiplo, Banco Credit Suisse (Brasil) S.A. and BNY Mellon Serviços Financeiros DTVM S.A.;

Wealth Management. Itaú Unibanco S.A., Banco Credit Suisse (Brasil) S.A., Banco do Brasil S.A., Banco Opportunity S.A., Banco Bradesco S.A. and Banco Safra S.A.; and

PanAmericano. Banco Votorantim S.A., Banco Bradesco S.A., Banco Safra S.A., Banco do Brasil S.A., Itaú Unibanco S.A. and Banco Santander (Brasil) S.A.

The competitors mentioned above do not necessarily include Celfin's or Bolsa y Renta's competitors.

Risk Management

In the ordinary course of our business, we are exposed to various risks inherent to banking activities. The way we manage these risks directly affect our activities and operations and, consequently, our results of operations and financial condition. Some of the most significant risks to which we are exposed to include market risk, liquidity risk, credit and counterparty risk, tax risk, operational risk and legal and regulatory risk.

Our management of these risks involves different levels of our management team and encompasses a series of policies and strategies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management."

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. In addition, a number of our committees are responsible for monitoring risk exposures and for general oversight of our risk management process. These committees (including their subcommittees), meet regularly and consist of senior members of both our business units and areas that are independent of our business units.

Information Technology

Information technology is an essential component of our business growth, and thus our information technology architecture has continuously been developed to increase the efficiency and reduce the operational risk of our business processes. Over the years we have developed a comprehensive and fully integrated system platform that supports all business lines, which we believe to be perfectly fitted to the Brazilian and international markets.

We have two main data centers, one in Rio de Janeiro and one in São Paulo, which are configured to act as back-up sites to each other. In addition to the Brazilian data centers, we have two others in New

York and London to support our international business operations locally as well as function as back-up sites globally.

We believe that our security policy is well-disseminated among and adhered by our personnel. This policy regulates the access and use of all our information technology resources by our personnel, and encompasses human, physical and logical security requirements, as well as encrypted resources.

We are currently designing and developing what we consider to be a next generation platform to support the growth of our business for the next decade. The strategic projects that have been executed include the implementation of the leader Enterprise Resource Planning (ERP) system, the use of virtualization to optimize the use of the servers and the redesign of our international system platform to better support our international expansion.

Marketing

We believe that the strong recognition of our brand is primarily the result of the strong and transparent image we have built with our clients and the awards that we have received, such as the best bank in M&A in Latin America by Global Finance in 2012; the best fund manager in the Largest Fixed Income and Flexible Mixed Allocation categories by Standard & Poors/*Valor Econômico* in 2012; the best investment bank in Brazil by *Latin Finance* in 2010 and *Global Finance* in 2011; #1 M&A – Brazil 2011 from the annual rankings of each of Thomson Reuters, Bloomberg and Dealogic; the Best Fund Manager – Brazil 2011, as well as Best Manager in Active Fixed Income 2011, Best Manager in Conservative Fixed Income 2011, Best Manager in Multi-Market Assets 2011 and Best Manager in Wholesale Funds 2011, all from *Exame* and FGV; Best Fixed Income Fund Manager 2011 and Best Multi-Market Fund Manager 2010 from *Valor Econômico*; #1 M&A Best Investment Bank – Brazil 2010 from *Latin Finance* Best Equity House – LatAm 2010 from *Latin Finance*; Equity House of the Year – Brazil 2010 from *Euromoney*; Best Brazil and LatAm Fixed Income/Credit Research 2010 from *Institutional Investor*, among others. We believe that our strong recognition also helps us to attract new clients without significant marketing initiatives and signals our expertise in the market. Our marketing efforts are usually limited to specific and focused marketing events.

Human Resources

As of December 31, 2012, our personnel consisted of 2,195 employees (including full time employees, interns, outsourced employees and the employees of Celfin and Bolsa y Renta) who perform a number of different supporting activities. The table below shows the number of such individuals by geographic location as of the dates indicated:

Location	As of December 31,		
	2010	2011	2012
Brazil			
Rio de Janeiro.....	481	541	623
São Paulo	421	466	667
Belo Horizonte	5	5	5
Porto Alegre	5	5	6
Recife.....	7	7	7
Brasília.....	–	–	4
New York⁽¹⁾	–	89	110
London⁽¹⁾	–	76	91
Hong Kong⁽¹⁾	–	9	12
Chile⁽²⁾	–	–	507
Peru⁽²⁾	–	–	36
Colombia⁽²⁾	–	–	23
Other locations	–	2	6
Outsourced	60	56	98
Total	979	1,256	2,195

(1) Pursuant to the corporate restructuring of the BTG Pactual Group in September 2011, employees of BTGI's subsidiaries responsible for conducting our international activities in London, New York and Hong Kong were transferred to us.

(2) Reflects the former employees of Celfin and Bolsa y Renta following the consummation of these transactions on November 13, 2012 and December 20, 2012, respectively.

In order to meet Central Bank's requirements, as well as improve the quality of our credit products, we regularly provide classes, seminars and conferences for our personnel in their respective areas of expertise, including classes related to the prevention of money laundering. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Legal and Regulatory Risk." We also regularly provide financial support to other classes and seminars requested by our personnel that we deem useful for our business operations.

In 2012, we had payroll expenses of R\$605.6, including expenses in connection with salaries, payroll charges and benefits. These benefits include: (i) meal vouchers, (ii) food vouchers, and (iii) medical and dental insurance. We also maintain a profit sharing plan regulated by a collective bargaining agreement with the National Banks Federation (*Federação Nacional de Bancos*) and the Banking Trade Union (*Sindicato dos Bancários*).

Our personnel based in Brazil are also members of the Banking Trade Union, and we are members of several bank associations. We believe that we have a good relationship with our employees and relevant unions and we have never experienced a strike or other labor conflict.

Properties

We have offices in Rio de Janeiro, São Paulo, Porto Alegre, Belo Horizonte, Recife, Brasília, Salvador and Ribeirão Preto, Brazil, as well as offices in New York, London, Hong Kong, Santiago, Lima, Medellin and Bogota. In 2013, we expect to open an office in Curitiba, Brazil and are in the process of establishing an office in Mexico City. We own a portion of our offices in Santiago, Chile and otherwise lease all of our offices. In December 2012, moved our São Paulo operations to a substantially larger office and may seek additional leases in the future as a result of our growth prospects.

All of our lease agreements are valid, with a specified term. There are no liens or encumbrances affecting the properties which we lease, and our use and operation of such properties do not violate any applicable laws.

Insurance

We maintain insurance policies to cover us against certain risks we believe may affect our operations. We only maintain insurance policies for our independent directors that provide coverage against risks associated with fraud, directors' and officers' liability, and other related risks which are customary in the industry in which we operate. Our insurance policies are renewed on an annual basis and contain standard terms and conditions applicable to insurance policies with similar coverage.

Our insurance policy for named perils provides coverage against damages to our furniture and devices within such premises caused by fire, lightning, explosions and electric damages, in our offices, as well any other damage caused by any of the events mentioned. The maximum recovery award under our two insurance policies that we maintain varies according to the covered location. Such award may be up to R\$71.0 million.

Intellectual Property

We have registered the trademark "BTG Pactual" in both word and combined forms before the Brazilian Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*), and before intellectual property agencies in several other countries, including the United States, Hong Kong, Singapore, Chile, Argentina, Mexico, India and Turkey.

In addition, we have registered several other brands we use in Brazil and elsewhere such as "Latin Stockwatch," "Brazil Equities Handbook," "Latin American Daily Economic Comment" and "Brazil Follow the Money."

We own the domain names “pactual.com.br” and “btgpactual.com.br,” among others, which are duly registered with NIC.br (*Núcleo de Informação e Coordenação do Ponto Br*), the entity responsible for registering domain names in Brazil.

Material Agreements

We are party to several agreements arising out of the normal course of our business, such as a broad range of financial agreements and other agreements, including for telecommunications services, supply of goods and information technology. We do not believe that any of those agreements taken individually is material to our financial condition results of operations.

In addition, we have entered into certain other material acquisition and sale agreements. We are party to material agreements relating to (i) the acquisition of Banco PanAmericano (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco PanAmericano Co-Controlling Interest and BFRE”), (ii) the acquisition of Celfin (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Celfin”), (iii) the creation of One Properties (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Establishment of One Properties and Merger into BR Properties”), (iv) the acquisition of Bolsa y Renta (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Bolsa y Renta”) and (v) the acquisition of Bamerindus (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Bamerindus”).

Legal Matters

We are party to various judicial and administrative proceedings, including tax, labor and civil proceedings, arising in the ordinary course of our business. As of December 31, 2012, our provisions for legal proceedings were R\$673.8 million and judicial deposits were R\$654.9 million, as detailed below. We believe that our provisions for judicial and administrative proceedings are sufficient to meet our probable losses.

We are party to a number of legal proceedings involving the payment of certain taxes and contributions. Our principal legal proceedings are summarized below:

Tax Proceedings

As of December 31, 2012, we were party to approximately 239 legal proceedings involving the payment of certain taxes and contributions, representing contingencies in the total amount of approximately R\$3,822.9 million, for which provisions in the amount of R\$644.7 million and judicial deposits in the amount of R\$633.0 million have been made. One of the most material of these proceedings is comprised of disputes related to the payment of Social Security Contribution tax (*Contribuição para o Financiamento da Seguridade Social*), or COFINS dating back to the period from February 1999 onwards. Such proceedings involve an aggregate amount of approximately R\$584.2 million, which was fully deposited. In 1998, new tax legislation was enacted which required Brazilian companies to pay COFINS on revenues resulted from financial investments (Law No. 9,718/98). Prior to 1998, the Brazilian Federal constitution dictated that Brazilian companies were only required to pay COFINS taxes on revenues from operational activities. We challenged the assessment of COFINS from financial investments and claimed the right to calculate the tax pursuant to the Complementary Law No. 7/70, arguing that in order to expand the COFINS tax calculation basis, the Brazilian legislature was required to observe a constitutionally mandated waiting period prior to enacting the legislation. In December 2008, we obtained partially favorable decisions in the Federal Regional Court of Brazil, and in July 2010, we appealed such decisions before both the Brazilian Superior Court of Justice and to the Brazilian Supreme Court. We are currently awaiting resolution of these appeals,

and in the meantime, our rights under the initial partially favorable decision are still in effect. We have been advised by our external legal counsel that we have a possible likelihood of losing these appeals.

In addition, we were also party, as of December 31, 2012, to several additional tax proceedings, representing contingencies in the total amount of R\$1,052.3 million, for which no provisions were made. These proceedings include: (i) proceedings in the amount of R\$872.9 million concerning payments related to our profit sharing program (PRL) challenging the social security contribution related to these payments and its non-deductibility from our income and social contribution tax base (IRPJ and CSLL, respectively); (ii) an administrative proceeding in the amount of R\$91.9 million involving the Municipality of São Paulo's assessment that certain services rendered in Rio de Janeiro were effectively rendered in São Paulo; and (iii) proceedings in the amount of R\$87.5 million concerning the demutualization and IPO of the Bovespa and BM&F, challenging the taxation of PIS, COFINS, IRPJ and CSLL on revenues arising from our sale of these companies' shares. We have been advised by our external legal counsel that we have a possible likelihood of losing these proceedings.

In addition to the legal proceedings described above, in October 2012, we received a tax assessment totaling R\$1,994.0 in which the main allegation (referring to approximately R\$1,970.0 million) was that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by us was inappropriate. Such goodwill was originated in connection with the acquisition of us by UBS in 2006. The amortization of such goodwill occurred from February 2007 to January 2012, although the tax assessment solely relates to the IRPJ and CSLL tax returns for the calendar years 2007, 2008 and 2009.

We have filed an appeal of this tax assessment. Based on our analysis of applicable case law, including in recent similar cases, we believe that the tax assessment is without merit and that we will ultimately prevail in its appeal. As a result, we do not expect to incur any losses (other than the costs of the appeal) in connection with this matter, and have not established (and do not expect to establish) any related reserves on our financial statements. In addition to our assessment as to the validity of this tax assessment, in the event that we incur losses in connection with this matter, we believe we are entitled to be indemnified by third parties for such losses. Accordingly, in no event do we expect to incur any material losses in connection with this matter.

Labor Proceedings

As of December 31, 2012, we were party to approximately 154 labor proceedings, representing contingencies in the total amount of R\$103.1 million, for which provisions in the amount of R\$9.9 million and judicial deposits in the amount of R\$3.7 million have been made. Most of the labor proceedings relate to claims of non-payment of overtime alleged by employees and the recognition of employment relationship by employees from outsourced service providers.

Civil and Other Proceedings

As of December 31, 2012, we were a defendant in approximately 206 civil and other proceedings (including certain non-regulatory proceedings with governmental and other supervisory entities), representing estimated contingencies in the total amount of R\$913.5 million, for which provisions in the amount of R\$19.1 million and judicial deposits in the amount of approximately R\$16.8 million have been made. On April 13, 2012, in connection with an ongoing civil, non-criminal investigation in Italy related to certain trades in the securities of an Italian market issuer made by our controlling shareholder and chief executive officer, André Santos Esteves, in his personal capacity in 2007, Mr. Esteves was informed that an administrative finding was reached. The finding determined that Mr. Esteves misused privileged information (on a secondary basis, as provided under applicable Italian law) in connection with the trades in the securities of Cremonini S.p.A., which was then in negotiations with JBS S.A. regarding a partnership transaction. As a result, Mr. Esteves was fined €350,000 and suspended for a period of nine months from serving as a director or executive officer of a company regulated by the Italian Companies and Stock Exchange Commission (*Commissione Nazionale per le Società e La Borsa*). In addition, his apparent profit from such trades was blocked. Mr. Esteves has filed an administrative appeal against such decision, which

is currently under review. Based on the nature of the proceeding, this matter is not expected to result in any criminal liability to Mr. Esteves. We believe that this matter will not have any adverse effect on the BTG Pactual Group, including on Mr. Esteves' capacity to serve in his present role in any of the companies in the BTG Pactual Group. Mr. Esteves believes the allegations are without merit.

Banco PanAmericano is currently involved in a dispute with certain persons with respect to the amounts due on bank certificates of deposit, or CDBs, it issued to such persons between 2005 and 2008. The CDBs bore interest at rates significantly higher, and had longer maturity dates, than similar securities issued by other financial institutions during that period. Banco PanAmericano has commenced legal proceedings to challenge the enforceability of its obligation to pay the contractual interest rate due on such CDBs. Despite such challenge, as of December 31, 2012, Banco PanAmericano had provisions of R\$701.5 million with respect to the principal and interest due on such CDBs. Banco PanAmericano also posted a bond of R\$20.8 million in the form of Brazilian government securities with respect to certain of such CDBs which have already matured. In addition, we are also involved with other proceedings involving Banco PanAmericano which, if determined unfavorably, would result in us being indirectly liable for certain obligations of previous affiliates of Banco PanAmericano in a total amount of R\$800.0 million. We have been advised by our external legal counsel that our chances of success are likely and, accordingly, have not recorded any provisions in relation to such proceedings. We believe that if Banco PanAmericano is successful in the legal proceedings described above, it will be positively affected. Conversely, we believe that if such legal proceedings are decided adversely to Banco PanAmericano, our financial condition and results of operations would not be materially and adversely affected.

Under the Brazilian constitution, any Brazilian has standing to institute an action for the purpose of "protecting the public interest" by seeking to annul an act pertaining to an entity in which the State participates. In April 2011, a Brazilian citizen filed a lawsuit (*ação popular*) against us and certain members of the Brazilian government, Caixa Economica Federal (or Caixa) and PanAmericano seeking an injunction to prevent our 2011 acquisition of a co-controlling stake in Banco PanAmericano and PanAmericano's liquidation. The request for injunctive relief was denied, and the plaintiff filed a preliminary appeal. We are currently awaiting a decision on such preliminary appeal, as well as a judgment on the merits at the lower court. We have been advised by our external legal counsel that our chances of loss are remote and, accordingly, have not recorded any provisions.

We are a party, as of December 31, 2012, to a class action lawsuit filed in São Paulo by the local Public Prosecution Service claiming that we and other banks are required to provide certain information about our clients to the Public Prosecution Services and the Federal Police, absent judicial authorization. We believe that the Public Prosecution Service's requests violate banking confidentiality laws. This lawsuit was dismissed, but the plaintiff has filed an appeal, which is currently pending. We have been advised by our external legal counsel that our chances of success are possible and, accordingly, have not recorded any provisions.

As of December 31, 2012, we were also a party as a potential creditor to approximately 22 civil proceedings totaling approximately R\$127.0 million.

Regulatory Proceedings

We are exposed to significant regulatory action and supervision, mainly from the Central Bank and the CVM. As a consequence, we could face claims against us and investigations related to our business, including with regard to our investment recommendations and trading activities.

In 2008, the Central Bank notified us that it had commenced an administrative proceeding against us and our principal shareholder. The administrative proceeding arises from certain day trade transactions carried out during October 2002 to February 2004 to benefit a foreign investor to our detriment. The potential fine is up to 5.0% of the value of the transactions, which would total approximately US\$189.0 million. In July 2008, we filed an administrative defense, and, on May 14, 2012, we filed a petition to be acquitted of all allegations. We continue to await a Central Bank ruling. We do not expect this proceeding to adversely affect us.

MANAGEMENT

Senior Management Team

Below is a summary of the business experience and other biographical information of our Senior Management Team, who is responsible for defining the general business policies and guidelines of the BTG Pactual Group, including its long-term strategies, and for controlling and monitoring its overall performance. Each member of our Senior Management Team is a Partner.

André Santos Esteves is our controlling shareholder. Mr. Esteves is the chief executive officer and chairman of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Esteves joined Banco BTG Pactual in 1989, became a partner in 1993 and was appointed a managing partner in 2002. Mr. Esteves served as the chairman and chief executive officer of Banco BTG Pactual from 2006 to 2008. Mr. Esteves was appointed global head of the fixed income group at UBS in August 2007 and global head of the FICC group at UBS in October 2007. Mr. Esteves was a director of FEBRABAN from 2003 to 2007 and a member of the board of the Brazilian Mercantile & Futures Exchange, or BM&F, from 2002 to 2006. Mr. Esteves received his bachelor's degree in mathematics from the Federal University of Rio de Janeiro.

Marcelo Kalim is the chief financial officer of Banco BTG Pactual and BTG Pactual Participations. In addition, Mr. Kalim is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Kalim joined Banco BTG Pactual in 1996 (and became a partner in 1998). Mr. Kalim served as chief investment officer of Banco BTG Pactual from 2006 to 2008, where he was responsible for investment decisions in the funds managed by Banco BTG Pactual. Mr. Kalim began his career at Banco BTG Pactual as a fixed-income trader and served as head fund manager and co-head of BTG Pactual Asset Management. Mr. Kalim received his bachelor's degree in economics from the University of São Paulo and his MBA from the Massachusetts Institute of Technology Sloan School of Management.

Roberto Balls Sallouti is the chief operating officer of Banco BTG Pactual and BTG Pactual Participations. In addition, Mr. Sallouti is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Sallouti joined Banco BTG Pactual in 1994 and became a partner in 1998. He also served as a managing director of Banco BTG Pactual from 2006 to 2008 and was the joint head of the emerging markets fixed income group and joint head of the Latin America FICC group at UBS AG. During his career at Banco BTG Pactual, Mr. Sallouti served as head of the international and emerging markets fixed income division from 2003 to 2006, and as joint head of Brazil local fixed income markets from 1999 to 2003. Mr. Sallouti received his bachelor's degree in economics, with concentrations in finance and marketing, from The Wharton School at the University of Pennsylvania.

Pérsio Arida is co-head of the asset management business unit of Banco BTG Pactual. In addition, Mr. Arida is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Prior to joining the BTG Pactual Group in 2008, Mr. Arida served in the Brazilian government and worked in the private sector and in academia. While working for the Brazilian government, Mr. Arida served as president of the Central Bank in 1995 and president of the BNDES, the Brazilian development bank, from 1993 to 1994. Mr. Arida was also secretary of the ministry of planning in 1985 and deputy president of the Central Bank in 1986. In the private sector, Mr. Arida worked as a consultant to financial institutions from 1979 to 1984. From 1987 to 1993, Mr. Arida served as director of Brasil Warrant and as a board member of the Unibanco Group. Mr. Arida was a director of Opportunity Asset Management from 1996 to early 1999, and a board member of Itaú Bank from 2001 to early 2009. In academia, Mr. Arida was a professor of economics at the Catholic University of Rio de Janeiro and at the University of São Paulo. In addition, Mr. Arida was a researcher at the Institute for Advanced Study at Princeton University, a fellow at the Woodrow Wilson Center in Washington, D.C. and a senior research fellow at the Oxford Centre for Brazilian Studies at Oxford University. Mr. Arida has received numerous awards and has published several papers and edited books. Mr. Arida received his PhD in economics from the Massachusetts Institute of Technology and his bachelor's degree in economics from the University of São Paulo.

John Huw Gwili Jenkins is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Prior to joining BTG Pactual in 2009, Mr. Jenkins worked at UBS AG from 1996 to 2008, where he held several positions, including chief executive officer, global head of equities, head of equities for the Americas and head of Asia-Pacific equities. Prior to joining UBS AG, Mr. Jenkins worked at BZW Investment Management from 1986 to 1996 and Hill Samuel in 1986. Mr. Jenkins has spent most of his career based in Asia and the United States. Mr. Jenkins received his bachelor's degree with honors in sociology and psychology from the University of Liverpool, his MBA from the London Business School and has recently participated in the Executives in Residence program at the London Business School.

Antonio Carlos Canto Porto Filho is an executive officer of Banco BTG Pactual. Prior to joining BTGI in October 2008, Mr. Filho served as vice chairman of Banco BTG Pactual from 2006 to 2008. Mr. Filho joined Banco BTG Pactual in 1997 as a partner and served as executive director of private banking and a member of its executive committee. Prior to 1997, Mr. Filho worked for 28 years at Banco de Crédito Nacional, where he held various positions including vice president for financial management, leasing, insurance, real estate, legal and marketing from 1988 to 1997, and financial director from 1979 to 1988.

Rogério Pessoa Cavalcanti de Albuquerque serves as the co-head of the wealth management unit and executive officer of Banco BTG Pactual. Mr. Pessoa joined Banco BTG Pactual in 1998 and became a partner in 2004. Mr. Pessoa served as head of our wealth management unit from 2004 to 2009. Previously, Mr. Pessoa worked for Delta Bank as vice president of private banking and for Prudential Securities as a broker in the international client accounts division. Mr. Pessoa received his bachelor's degree in economics from the Catholic University of Rio de Janeiro and his MBA from the University of Illinois.

Jonathan David Bisgaier serves as the general counsel and an executive officer of Banco BTG Pactual. Prior to joining BTG Pactual in December 2008, Mr. Bisgaier was a partner at Skadden, Arps, Slate, Meagher & Flom LLP, where he specialized in M&A, corporate finance and private equity transactions involving Latin American and multinational clients transacting business in Latin America. From 1997 to 2003, Mr. Bisgaier was an investment banker at Violy, Byorum & Partners, an investment bank focused on Latin America. Mr. Bisgaier also worked at Skadden from 1988 to 1996. Mr. Bisgaier was selected for inclusion in *Chambers Global: The World's Leading Lawyers for Business 2008* and *Chambers America: The World's Leading Lawyers for Business 2008*. Mr. Bisgaier received his JD from the New York University School of Law and his bachelor's degree from New York University College of Business and Public Administration.

Emmanuel Rose Hermann serves as the co-head of the equities division within our investment banking unit and executive officer of Banco BTG Pactual. Mr. Hermann joined Banco BTG Pactual in 1992 and became a partner in 1998. Mr. Hermann was a managing director from 2006 to 2008 at Banco BTG Pactual, where he served as head of the global emerging markets equity desk, as well as head of the Latin America equities derivatives and structured products desk. During his career at Banco BTG Pactual, Mr. Hermann served as head of the proprietary equity desk from 1998 to 2006 and as a portfolio manager from 1995 to 1998. Mr. Hermann received his bachelor's degree in economics from the Federal University of Rio de Janeiro.

Eduardo Henrique de Mello Motta Loyo serves as the chief economist and executive officer of Banco BTG Pactual. Mr. Loyo joined Banco BTG Pactual in 2007, where he served as managing director and chief economist for Latin America. From 2005 to 2007, Mr. Loyo was executive director of the IMF, elected by Brazil and eight other countries. Mr. Loyo was deputy president of the Central Bank from 2003 to 2005, and a voting member of the Central Bank's Committee on Monetary Policy (*Comitê de Política Monetária*), or COPOM. Since 2001, Mr. Loyo has been a professor of economics at the Catholic University of Rio de Janeiro and was assistant professor of public policy at Harvard University from 1998 to 2003. Mr. Loyo also held visiting faculty positions at Columbia University in 2003 and INSEAD in 2002. Mr. Loyo serves as a director of the Institute for Economic Policy Studies - Casa das Graças, a think tank in Rio de Janeiro. Mr. Loyo received his PhD in economics from Princeton University.

James Marcos de Oliveira is the co-head of the asset management unit of the BTG Pactual Group. Mr. Oliveira joined Banco BTG Pactual in 1992 and became a partner in 1998. Mr. Oliveira was

managing director from 2006 to 2008, where he was the joint head of the emerging markets division of the fixed income group and joint head of FICC Latin America. Mr. Oliveira was the head of the Brazil local markets division of the fixed income group from 2003 to 2006 and joint head of the Brazil local markets division of the fixed income group from 1998 to 2003. Mr. Oliveira holds a bachelor's degree in business administration from *Fundação Getúlio Vargas* (FGV-SP) São Paulo Business School.

Guilherme da Costa Paes serves as the co-head of the investment banking unit and executive officer of Banco BTG Pactual. Mr. Paes joined Banco BTG Pactual in 1992 and became a Partner in 1998. Mr. Paes headed the oil and infrastructure sectors within the corporate finance division, participating in M&A and capital markets transactions. Mr. Paes received his degree in business administration from Santa Úrsula University in Rio de Janeiro and his MBA from the Brazilian Institute of Capital Markets, or IBMEC, with a concentration in finance.

Renato Monteiro dos Santos serves as the head of FICC and executive officer of Banco BTG Pactual. Mr. Santos joined Banco BTG Pactual in 1997 and became a partner in 2001. Mr. Santos served as head of the Brazil rates desk and head of FICC Latin America from 2006 to 2008. Mr. Santos began his career at Banco BTG Pactual in 1997 as a trader, serving as head of Latin America fixed income markets from 2004 to 2006. Mr. Santos received a bachelor's degree in business administration from FGV-SP and a bachelor's degree in economics from the University of São Paulo.

André Fernandes Lopes Dias is the chief risk officer and an executive officer of Banco BTG Pactual. Mr. Fernandes joined Banco BTG Pactual in 1997 and, in 2004, assumed responsibility for the control of credit risk. In 2006, he became an executive director in charge of credit risk control at UBS AG, a position he held until 2009. Prior to joining Banco BTG Pactual, Mr. Fernandes worked as an auditor at KPMG. Mr. Fernandes received his business administration degree from the Catholic University of Rio de Janeiro.

João Marcello Dantas Leite is head of finance and tax of the BTG Pactual Group, an executive officer of Banco BTG Pactual and the investor relations officer of Banco BTG Pactual and BTG Pactual Participations. Mr. Dantas joined Banco BTG Pactual in 1993 as head of the fiscal department, and in 1997 he assumed the position of controller. Prior to joining Banco BTG Pactual, Mr. Dantas worked in tax consultancy at Arthur Andersen. Mr. Dantas is a member of the board of directors of ANBIMA. Mr. Dantas received his bachelor's degree in economics from the University Cândido Mendes.

José Octavio Mendes Vita serves as the co-head of the investment banking unit of Banco BTG Pactual. Mr. Vita joined Banco BTG Pactual in 1989 and became a partner in 1993. Mr. Vita headed the sugar and ethanol, food and beverages, agribusiness, mining, steel and pulp and paper sectors within the corporate finance division of Banco BTG Pactual, participating in M&A and capital markets transactions. Previously, Mr. Vita worked for Bankers Trust Co. of Brazil as a corporate finance analyst and also worked for Morgan Guaranty Trust Company of New York as a treasury assistant. Mr. Vita received his bachelor's degree at FGV-SP in 1981 and his MBA from The Wharton School of the University of Pennsylvania.

Carlos Daniel Rizzo da Fonseca is head of the merchant banking activities of the BTG Pactual Group. Prior to joining the BTG Pactual Group, Mr. Rizzo da Fonseca was a partner at Banco Fator from 1997 to 2005 within the M&A division. From 2006 to 2008, he served as head of M&A for the investment banking division at UBS Pactual. Earlier in his career, Mr. Rizzo da Fonseca worked at PricewaterhouseCoopers. Mr. Rizzo da Fonseca received his bachelor's degree in business from *Pontifícia Universidade Católica* of São Paulo (PUC-SP).

José Zitelmann serves as head of equities proprietary trading of the BTG Pactual Group. Mr. Zitelmann joined the BTG Pactual Group in 1998 in the corporate finance division, and a year later, moved to our asset management business unit. Mr. Zitelmann served as head of equities proprietary trading for Latin America and on the executive committee at UBS Pactual. Mr. Zitelmann received his degree in business management from the FGV-SP São Paulo Business School (*Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas – EASP/FGV*).

Board of Directors

Our board of directors is responsible for, among other things, electing and removing our executive officers and supervising the other members of our management team.

The members of our board of directors are elected and removed at our shareholders' meetings in accordance with the terms and conditions of our by-laws, Brazilian Corporations Law, the Consortium Shareholders Agreement (see “—Consortium Shareholders Agreement”) and the Partner Brazil Shareholders Agreement (see “Our Partnership—Shareholders Agreements—Partner Brazil Shareholders Agreement”). Each such director is elected for a one-year term, and a director may be reelected. Under our by-laws, the board of directors shall be composed of five to eleven members, one of whom is designated as chairman and one of whom is designated as investor relations director.

Under Brazilian Corporations Law, the adoption of a cumulative voting process to elect board members may be required by the shareholders holding at least 10.0% of our voting capital. Under such procedure, each voting share shall be granted a number of votes equal to the number of directors to be elected, and shareholders shall have the right to cumulate votes in a single candidate or distribute them among several candidates. In addition, minority shareholders whose interest in the voting shares represent a minimum of 15.0% of our voting capital stock have the right to elect one director in a separate voting process. Moreover, minority shareholders whose interest in our preferred shares representing at least 10.0% of our capital stock have the right to elect one member of the board of directors by a separate voting process. In addition, in case minority shareholders do not reach the 15.0% and 10.0% thresholds, they may combine their holdings in common and preferred shares so that they jointly hold at least 10.0% of the capital stock and, therefore, are able to elect one director in a separate voting process. As a result, minority shareholders may be entitled to elect up to two members of the board of directors by the separate voting process in addition to any additional members elected through the cumulative voting process. However, whenever the directors are elected by the cumulative voting process and the minority shareholders exercise their right to elect directors in a separate voting process, Brazilian Corporations Law allows holders (or group of holders bound by voting agreements) of more than 50% of the voting shares the right to elect the same number of directors elected by minority shareholders via the cumulative and separate voting processes, plus one.

Our capital stock consists of common shares representing approximately 51% of our total capital stock and preferred shares representing approximately 49% of our total capital stock. As of the date of this Offering Memorandum, our board of directors was composed of ten members, four of whom were independent directors.

The table below shows the name, position and date of election of each member of our board of directors as of the date of this Offering Memorandum:

Name	Position	Election Date ⁽¹⁾
André Santos Esteves.....	Chairman of the Board	April 2, 2012
Pérsio Arida	Director	April 2, 2012
Marcelo Kalim	Director	April 2, 2012
Roberto Balls Sallouti.....	Director	April 2, 2012
Cláudio Eugênio Stiller Galeazzi	Director	April 2, 2012
John Huw Gwili Jenkins	Director	April 2, 2012
John Joseph Oros	Director	April 2, 2012
Dr. Linbo He (Ludwig)	Director	April 2, 2012
William T. Royan	Director	August 31, 2012
Juan Carlos García Canizares	Director	January 3, 2013

(1) Refers to date of most recent election.

The business address of each member of our board of directors is Praia de Botafogo, 501, 5 ° e 6° andares, Rio de Janeiro, RJ-22250-040, Brazil.

Although Roberto Balls Sallouti, John Huw Gwili Jenkins and John Joseph Oros were elected to our board of directors on April 29, 2011, pursuant to Brazilian law, each director of a financial institution may only officially take office following approval of such person's service as a director by the Central Bank and the formal assumption of office by such person. As a result of such requirements, Roberto Balls Sallouti only officially assumed his position as a member of our board of directors as of April 2, 2012, and John Huw Gwili Jenkins and John Joseph Oros only officially assumed their positions as of May 2, 2012. Dr. Linbo He (Ludwig) was elected to our board of directors on April 2, 2012 but only officially took office on August 1, 2012. Prior to April 2, 2012, the members of Banco BTG Pactual's board of directors were André Santos Esteves, Marcelo Kalim, Persio Arida, Claudio Eugenio Stiller Galeazzi, James Marcus Oliveira and Carlos Fonseca. On February 22, 2013, Willian Thomas Royan and Juan Carlos García Canizares officially assumed office.

Below is a summary of the business experience and other biographical information of our board of directors.

André Santos Esteves is the chairman of our board of directors. For a summary of Mr. Esteves' business experience and other biographical information, see "—Senior Management Team" above.

Pérsio Arida is a member of our board of directors. For a summary of Mr. Arida's business experience and other biographical information, see "—Senior Management Team" above.

Marcelo Kalim is a member of our board of directors. For a summary of Mr. Kalim's business experience and other biographical information, see "—Senior Management Team" above.

Roberto Balls Sallouti is a member of our board of directors. For a summary of Mr. Sallouti's business experience and other biographical information, see "—Senior Management Team" above.

Cláudio Eugênio Stiller Galeazzi is co-head of the merchant banking area of the principal investments business unit of the BTG Pactual Group and member of the board of directors of Banco BTG Pactual. Prior to joining the BTG Pactual Group in 2010, Mr. Galeazzi held positions in the management of several companies, including managing director of the Brazilian and Argentine subsidiaries of Drew Chemical Corp., president of Cesbra and John Sommers (a joint venture between British Petroleum and Brascan) and vice-president of British Petroleum Mineração in Brazil. He also worked in several corporate restructurings, including Artex, Mocoa, Vila Romana, Cecrisa, Lojas Americanas and CDB – Grupo Pão de Açúcar. Mr. Galeazzi received his degree in accounting.

John Huw Gwili Jenkins is a member of our board of directors. For a summary of Mr. Jenkins' business experience and other biographical information, see "—Senior Management Team" above

John Joseph Oros is a member of our board of directors. Mr. Oros is a managing director of J.C. Flowers & Co. LLC, a private equity firm based in New York, which he joined in 2000. From 1980 to 2000, Mr. Oros was an investment banker in the financial institutions group of Goldman, Sachs & Co., where he became a general partner in 1986. Between 1978 and 1980, Mr. Oros worked for Merrill Lynch as manager of the finance and mortgage division. Mr. Oros also serves as a director and executive officer of various entities, including OneWest Bank, Saddle River Valley Bank and Flowers National Bank. Mr. Oros was appointed and served as Committee Chairman of the Federal Savings and Loan Advisory Council. Mr. Oros received his bachelor's degree in business management from the University of Wisconsin Business School.

Dr. Linbo He (Ludwig) is a member of our board of directors. Dr. He is currently the managing director and head of the private equity investment department of China Investment Corporation (CIC), responsible for CIC's overseas private equity funds and direct investment in non-commodity sectors, real estate and credit opportunity. Previously, Dr. He has headed CIC's fixed income & absolute return investment department, public market investment department, and asset allocation and strategic research

department. Prior to joining CIC, Dr. He was employed by a number of financial institutions in Germany including Commerzbank, HypoVereinsbank and Talanx Investment. During that time he held senior management positions, such as head of Jumbo-Pfandbriefe trading, head of fixed income fund management and member of the investment committee. Dr. He also serves as board member of Citic Capital and PCA Investment. Dr. He received his bachelor of science degree from Peking University and his master of managerial engineering degree from Tsinghua University, both in China, and Dr. rer. pol. (in Finance) from Universitaet zu Koeln/University of Cologne, Germany.

William T. Royan was elected as a member of our board of directors on August 31, 2012 but has not yet officially assumed such position. Mr. Royan is currently the head of investor relations of the Ontario Teachers' Pension Fund (OTTP). Prior to joining OTTP, Mr. Royan held several senior positions at Lehman Brothers in both its investment segment's merger group and equity strategy unit. Previously, he worked in the merger and acquisition groups of JP Morgan and RBC Dominion Securities. Mr. Royan has served as a member of the board of directors of several publicly and privately held companies. He currently serves as a member of the board of directors and chairman of the governance committee of TMX Group, which operates several stock and derivatives markets, including the Toronto Stock Exchange, and provides services relating to settlement, clearance and deposits. Mr. Royan received his bachelor's degree in commerce from the University of Calgary and his MBA from the University of Chicago.

Juan Carlos García Canizares is a member of our board of directors. He is currently an officer at Quadrant Capital Advisors, where he is the head of the strategic investment group, responsible for capital allocation in the energy, infrastructure, financial markets and consumer goods areas worldwide. Previously, he was the vice-strategy and planning officer at the brewery Bavaria S.A., where he participated in international capital market transactions. He began his career in 1992 as a founding partner of Estrategias Corporativas S.A., an M&A and strategic consulting firm focused on Latin America, where he executed mergers, acquisitions and corporate restructuring in the region. Mr. Canizares has been a member of the Boards of Directors of other companies and non-governmental institutions in the U.S. and Latin America, and is currently a board member in Colombia (Bavaria, Valorem and Banco CorpBanca), Peru (Backus & Johnston) and in the U.S. (Genesis Foundation). Mr. Canizares completed an MBA program in business administration devised in a partnership between New York University, the London School of Economics and the Hautes Études Commerciales de Paris. He earned a bachelor's degree in industrial engineering from the Javeriana University, in Colombia.

Board of Executive Officers

Under our by-laws, our board of executive officers must be composed of two to sixteen members, one of whom is designated as the chief executive officer and others as executive officers. Our executive officers are our legal representatives, responsible for the day-to-day management of our operations and for implementing the policies and general guidelines set by our board of directors.

In April 2012, we approved a new version of our by-laws at our general shareholders' meeting. Under our April 2012 by-laws, the board of executive officers will continue to be composed of two to sixteen members, who are not required to be our shareholders. In addition, one member of the board of executive officers will be designated as director of investor relations and up to seven members will be designated as senior vice presidents, with the remaining members as executive officers. The designation of the members of our board of executive officers will occur at the time of election.

Under Brazilian Corporations Law, our executive officers must reside in Brazil, but do not need to be shareholders.

Our executive officers are elected by our board of directors for one-year terms and re-election is permitted. Under Brazilian Corporations Law, a maximum of one-third of our directors may also serve as executive officers. In addition, executive officers may be removed at any time pursuant to a decision taken by our board of directors.

Our board of executive officers is composed of thirteen members. The table below shows the name, position and date of election of each of our executive officers as of the date of this Offering Memorandum:

Name	Position	Election Date⁽¹⁾
André Santos Esteves.....	Chief Executive Officer	June 20, 2012
Antonio Carlos Canto Porto Filho.....	Senior Vice President	June 20, 2012
Eduardo Henrique de Mello Motta Loyo	Executive Officer	June 20, 2012
Emmanuel Rose Hermann	Senior Vice President	June 20, 2012
Guilherme da Costa Paes	Executive Officer	June 20, 2012
Jonathan David Bisgaier	Executive Officer	June 20, 2012
João Marcello Dantas Leite.....	Executive Officer and Investor Relations Officer	June 20, 2012
Marcelo Kalim	Senior Vice President	June 20, 2012
Oswaldo de Assis Filho	Executive Officer	June 20, 2012
Renato Monteiro dos Santos	Senior Vice President	June 20, 2012
Roberto Balls Sallouti.....	Senior Vice President	June 20, 2012
Rogério Pessoa Cavalcanti de Albuquerque	Executive Officer	June 20, 2012
André Fernandes Lopes Dias	Executive Officer	June 20, 2012

(1) Refers to date of most recent election.

The business address of each member of our board of executive officers is Praia de Botafogo, 501, 5 ° e 6° andares, Rio de Janeiro, RJ–22250-040, Brazil.

Below is a summary of the business experience and other biographical information of our board of executive officers.

André Santos Esteves is our chief executive officer. For a summary of Mr. Esteves’ business experience and other biographical information, see “—Senior Management Team” above.

Antonio Carlos Canto Porto Filho is an executive officer of Banco BTG Pactual. For a summary of Mr. Filho’s business experience and other biographical information, see “—Senior Management Team” above.

Eduardo Henrique de Mello Motta Loyo is an executive officer of Banco BTG Pactual. For a summary of Mr. Loyo’s business experience and other biographical information, see “—Senior Management Team” above.

Emmanuel Rose Hermann is an executive officer of Banco BTG Pactual. For a summary of Mr. Hermann’s business experience and other biographical information, see “—Senior Management Team” above.

Guilherme da Costa Paes is an executive officer of Banco BTG Pactual. For a summary of Mr. Paes’ business experience and other biographical information, see “—Senior Management Team” above.

Jonathan David Bisgaier is an executive officer of Banco BTG Pactual. For a summary of Mr. Bisgaier’s business experience and other biographical information, see “—Senior Management Team” above.

João Marcello Dantas Leite is an executive officer of Banco BTG Pactual and also serves as Banco BTG Pactual’s investor relations officer. For a summary of Mr. Dantas’ business experience and other biographical information, see “—Senior Management Team” above.

Marcelo Kalim is an executive officer of Banco BTG Pactual. For a summary of Mr. Kalim’s business experience and other biographical information, see “—Senior Management Team” above.

Oswaldo de Assis Filho is an executive officer of Banco BTG Pactual. Prior to this, Mr. Assis Filho was responsible for the commercial coverage of the insurance, banking and textile sectors of the

investment banking business unit of BTG Pactual. Mr. Assis Filho has worked in financial institutions since 1976 and, before joining Banco BTG Pactual, he was vice-president of Banco de Crédito Nacional. He graduated from Instituto Tecnológico da Aeronáutica, where he received a bachelor's degree in electrical engineering in 1973. He also has a master degree in economics from Universidade de São Paulo. Mr. Assis Filho has been a partner of Banco BTG Pactual since 1997.

Renato Monteiro dos Santos is an executive officer of Banco BTG Pactual. For a summary of Mr. Santos' business experience and other biographical information, see "—Senior Management Team" above.

Roberto Balls Sallouti is an executive officer of Banco BTG Pactual. For a summary of Mr. Sallouti's business experience and other biographical information, see "—Senior Management Team" above.

Rogério Pessoa Cavalcanti de Albuquerque is an executive officer of Banco BTG Pactual. For a summary of Mr. Albuquerque's business experience and other biographical information, see "—Senior Management Team" above.

André Fernandes Lopes Dias is an executive officer of Banco BTG Pactual. For a summary of Mr. Fernandes' business experience and other biographical information, see "—Senior Management Team" above.

Compensation

General

In 2012, we paid an aggregate of R\$86.8 million to the directors of Banco BTG Pactual.

Under Brazilian law, our shareholders are responsible for establishing the aggregate amount of compensation that may be paid to our executive officers and directors. Our board of directors in turn allocates such aggregate amount among our directors and executive officers.

Compensation Committee

On November 25, 2010, the CMN issued Resolution No. 3,921, which established new rules relating to the compensation of directors and officers of financial institutions and other institutions authorized to operate by the Central Bank. The compensation of directors and officers may be fixed or variable, and should be in any case compatible with the financial institution's risk management policies. Variable compensation may be based on specific criteria set forth in Resolution No. 3,921. At least 50.0% of variable compensation must be paid in stock or stock-based instruments and at least 40.0% of variable compensation must be deferred for future payment by at least three years. These new rules took effect on January 1, 2012. Such committee must follow the requirements set out in Resolution No. 3,921.

In April 2012, we approved a new version of our by-laws at our general shareholders' meeting. Under our April 2012 by-laws, and pursuant to the requirements of Resolution No. 3,921, we created a compensation committee specifically responsible for the compensation of key executives. The committee will consist of three to six members elected by our board of directors, all of whom will be members of our board of directors, except for one who must be a manager.

Our compensation committee's principal functions will be (i) approval of the granting of stock options, (ii) discussion and analysis of our existing compensation models and (iii) evaluation and approval of the compensation packages proposed by the chief executive officer for our executive officers, including the fixed and variable compensation components, benefits and long-term incentive compensation.

In addition, the compensation committee shall evaluate the impact of CMN Resolution No. 3,921 and propose measures in order to ensure our compliance with such rules.

Committees

Fiscal Council

Under Brazilian Corporations Law, a company may form a fiscal council to operate as a corporate body independent of its management and its independent auditors. A fiscal council may be either permanent or non-permanent. A non-permanent fiscal council is formed at the request of shareholders that represent at least 10.0% of the voting shares or 5.0% of the non-voting shares. Such request may be made at any shareholders' meeting. We do not currently have a fiscal council and have, therefore, not elected any fiscal council members. When formed, the fiscal council will be non-permanent pursuant to our by-laws and composed of a minimum of three and a maximum of five members and their respective alternates, according to Brazilian Corporations Law.

The primary responsibilities of a fiscal council are monitoring management activities, reviewing the company's financial statements and reporting its findings to the shareholders. Under Brazilian Corporations Law, we would be required to pay fiscal council members, as compensation, a minimum of 10.0% of the average annual amount paid to our executive officers.

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

Audit Committee

On May 27, 2004, the CMN issued Resolution No. 3,198, as amended, which regulates the rendering of independent auditors' 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 providers. Resolution No. 3,198 requires financial institutions holding a reference shareholders' equity or managing third parties' wealth in amounts equal to or greater than R\$1,000,000,000, among other entities, to create a corporate body designated as an audit committee. Pending approval from the Central Bank, our audit committee will be composed of three to six members elected by our board of directors. The audit committee will be responsible for setting the annual remuneration of our directors.

In general terms, the audit committee's duties are to take certain measures and to perform specific functions in order to ensure compliance of the relevant financial institution with the applicable accounting regulations.

Consortium Shareholders Agreement

We and certain other parties have entered into a shareholders agreement with the members of the Consortium, referred to herein as the Consortium Shareholders Agreement. The Consortium Shareholders Agreement provides the members of the Consortium with certain rights with respect to the designation of a nominee to serve on our board of directors.

The Consortium Shareholders Agreement provides that our board of directors shall consist of between five and eleven directors, as determined by BTG Pactual Holding. In addition, the Consortium Shareholders Agreement requires that so long as the members of the Consortium continue to hold, in the aggregate, directly or indirectly, securities of BTGI and Banco BTG Pactual that represent at least 5.0% of the total outstanding securities of BTGI and Banco BTG Pactual, referred to herein as the Requisite Ownership Percentage, our board of directors shall nominate one individual designated by the representative of the members of the Consortium such that the members of the Consortium will have one designee on our board. Except for any directors nominated by our unit holders, all other members of such board of directors (including any vacancies) will be nominated by BTG Pactual Holding. Subject to certain limited exceptions set forth in the Consortium Shareholders Agreement, for so long as the representative of the members of the Consortium has the right to nominate a director pursuant to the foregoing, the

representative of the members of the Consortium shall have the exclusive right to remove the director designated by such representative and to nominate an individual to fill the vacancy created by such removal.

In addition, the parties to the Consortium Shareholders Agreement agreed, for so long as the members of the Consortium hold, in the aggregate, the Requisite Ownership Percentage, to (x) refrain from requesting the adoption of the cumulative voting procedure (*voto múltiplo*) or the election by separate ballot procedure (*eleição em separado*) set forth in Brazilian Corporations Law, and (y) in case such voting procedures are used in any election of our directors, cast their votes in a manner consistent with the Consortium Shareholders Agreement.

Subject to restrictions that may be imposed under applicable law, for so long as the members of the Consortium in the aggregate continue to hold the Requisite Ownership Percentage, the representative of the members of the Consortium has the right to designate one non-voting observer to attend meetings of our board of directors.

In connection with our initial public offering, we (along with BTG Pactual Participations, BTG Pactual Holding and BTG GP) entered into a letter agreement with the affiliates of China Investment Corporation that purchased our equity in December 2010. Under the terms of the letter agreement, so long as such affiliates continue to hold at least fifty percent of our equity that was originally purchased by such affiliates in 2010, we have agreed, subject to certain conditions, to nominate one individual identified by such affiliates (who is reasonably acceptable to us) for election to our board of directors at our annual shareholders meeting in 2012 and 2013, and BTG Pactual Holding has agreed to vote its shares in favor of the election of such individual to such board of directors.

For additional information regarding other shareholders' agreements affecting our management and control, see "Our Partnership—Shareholders Agreements."

OUR PARTNERSHIP

Our Partnership

We believe the key to our success is our partnership model. We believe this model (i) fosters a culture of teamwork, talent development, entrepreneurship, meritocracy and long-term commitment, (ii) substantially enhances the integration of our various business units and maximizes cross-selling of our products, (iii) allows us to maintain an intense, long-term and recurring commitment to our clients, and identify and capitalize on opportunities in the Brazilian and international financial markets, (iv) substantially enhances our ability to attract the best available talent and (v) greatly facilitates our ability to consistently maintain a lean and cost efficient organizational structure. As a result of this model, and the integration of our businesses, we have a diversified revenue mix and low cost to income ratio and have consistently achieved financial results that we believe exceed those of our competitors.

Description of Partnership Model

Partners have been admitted to and left our partnership by purchasing and selling equity interests in us, BTGI and BTG Pactual Holding. As described below, the partnership has the right to purchase all or part of any Partner's Partnership Equity at any time and for any reason, without the consent of the affected Partner. In addition, any Partner leaving his or her full time employment with the BTG Pactual Group has the right to sell all of its Partnership Equity to certain entities that are wholly-owned by the Partners but may not sell to any other third party except as described below. These transactions were effected at the book value of such interests at the time of the relevant transaction.

The purchase and sale of Partnership Equity occurs in a number of circumstances. First, from time to time, and no less frequently than annually, we conduct a review of the performance of Partners and employees in our organization and determine to reallocate the Partnership Equity among our Partners and to promote certain high performing employees, who previously did not own Partnership Equity, to Partner status, simultaneously reducing the Partnership Equity held by certain other Partners. These reallocations are referred to herein as Reallocation Transfers. Similarly, from time to time, individuals may be admitted as new Partners in connection with the commencement of their activities as executives within the BTG Pactual Group. These reallocations and decisions to admit new Partners are done on a meritocratic basis, following discussions among the Senior Management Team, in an effort to reward individuals who are determined to be making significant contribution to the BTG Pactual Group and who are also perceived to share our partnership culture. In addition, in the past the partnership has, in each case, exercised its right to purchase at book value all of the Partnership Equity held by any Partner when the full time employment of such Partner with the BTG Pactual Group was terminated, regardless of the reason for such termination.

The entities utilized as the purchaser of the Partnership Equity transferred in the circumstances described above are BTG Pactual Holding (with respect to the Partnership Equity that consists of our shares and shares of BTG Pactual Holding) and the Merchant Banking Partnership (with respect to the Partnership Equity that consists of BTGI limited partnership interests). The purchasing entities are wholly-owned by our Partners. Partners entering the partnership or increasing their interest through the allocation and purchase of new interests can receive financing for such purchases from BTGI to the extent they did not have the resources available to effect such purchases.

Partnership Model Post Initial Public Offering

Our partnership model remained unchanged as a result of our initial public offering as well the December 2010 transaction in which the members of the Consortium and the Participating Partners invested a total of US\$1.8 billion (R\$3.0 billion) in the BTG Pactual Group. In order to ensure that the interests of our Partners and our public shareholders are aligned, and to perpetuate the model that we believe is the key to our success, we have implemented several concrete steps to maintain our partnership model. These mechanisms result in the economic burden of incentivizing our most important executives (other than to the extent of costs relating to salaries, bonuses and the cost of BTGI providing financing to Partners that purchase Partnership Equity) being borne by our Partners (through future dilution), rather than being shared with unit holders. We believe that the continuation of our partnership model following our

initial public offering distinguishes the BTG Pactual Group significantly from other investment banking and asset management firms that have consummated initial public offerings both in Brazil and the international markets, because the typical model implemented in these other cases allowed virtually all of the equity held in the former partnership to vest and become saleable in the market at prevailing market prices (rather than book value) within a relatively short time following the completion of such initial public offering.

Continuation of Purchase/Sale Right

We will continue our practice of having the right to cause our current and future Partners to sell all or a portion of their Partnership Equity (at any time and for any reason) at the book value of such interests (unless the market price at such time is less than book value, in which case the sale will be effected at such lower price), despite the fact that following our initial public offering the value of such interests implied by the trading price of the units in the market may be substantially in excess of such book value. This arrangement will allow us to continue the practice of reallocating Partnership Equity among Partners and to new individuals who become Partners on a meritocratic basis which we believe substantially enhances our ability to attract and retain talented executives. In addition, any Partner leaving his or her full time employment with the BTG Pactual Group will have the right to sell all of its Partnership Equity to the entities (and only to such entities) wholly-owned by the Partners as described above. These purchase and sale transactions will be effected at the book value of such interests at the time of the transaction in question (unless the market price of the units at such time is less than book value, in which case the transaction will be effected at such lower price). Certain of the individuals who purchase Partnership Equity may require loans to purchase such equity interests to the extent they do not have the resources available to effect such purchases. BTGI may make loans to such individuals.

Restrictions on Sales of Partnership Equity

The Partnership Equity is subject to substantial transfer restrictions. These restrictions are primarily designed to maintain our partnership by preventing Partners from selling their Partnership Equity other than as described above with respect to sales among Partners (through BTG Pactual Holding and the Merchant Banking Partnership), subject to certain limited exceptions described below. The Partnership Equity represents, directly or indirectly, approximately 71.91% of the issued and outstanding economic interest in us (consisting of approximately 81.72% of our common shares and approximately 61.61% of our preferred shares). The Partnership Equity does not include, and the transfer restrictions described in this section do not apply to, our equity securities purchased by the Participating Partners at the same time and on the same terms and conditions as the members of the Consortium or the 9,000,000 common shares and 18,000,000 Series A preferred shares of us acquired by BTG Pactual Holding in our initial public offering. Such transfer restrictions will also not apply to any of the units that may be subsequently purchased in the market or from third parties who are not Partners or affiliates of Partners.

The Partnership Equity may not, directly or indirectly, be transferred or otherwise sold by any Partner, except for “Permitted Partner Transfers” which are limited to transfers:

- to certain related parties that are permitted transferees (as defined below) of the transferring Partner;
- pursuant to Reallocation Transfers as described above;
- on a pro rata basis by the Partners to a “Strategic Investor” (as defined below), provided that any such transfer is subject to the approval of our controlling shareholder;
- in connection with a “Change of Control” (as defined below), including pursuant to a mandatory tender offer initiated by the person or group that is acquiring control of us in connection therewith, provided that any such Change of Control will require the approval of our controlling shareholder;
- to a lender in connection with the foreclosure by such lender on a loan that created a lien on

such Partnership Equity, provided that such transaction has been approved by our controlling shareholder; and

- pursuant to a certain Partner withdrawal agreement to the extent necessary to facilitate any of the foregoing permitted transfers.

We currently intend to keep these provisions in place with respect to all of the Partnership Equity for the foreseeable future, and are aware of no conditions that would cause us to believe that there is any likelihood that we will modify such provisions.

However, from time to time we consider the specific provisions of our partnership and believe it is important to retain the flexibility to implement changes that we believe to be in the best interests of our business. Accordingly, it is possible, although currently not anticipated or even considered likely, that our controlling shareholder may determine to modify such provisions at some future date. In the event we determine to modify such provisions, we anticipate that a reasonable time in advance of making such change effective, we will notify the market that the rules regarding the restrictions on Partnership Equity described herein will change.

For purposes of the foregoing:

- “Change of Control” means a transaction or series of related transactions (other than Reallocation Transfers) pursuant to which our current or future Partners (including any entity that is wholly-owned by such Partners as a group) dispose of or sell, whether directly or indirectly, more than 50% of our common shares to any person or group of persons that is or are not prior to the time of such transaction or the beginning of the series of related transaction, and will not in connection with such transaction or series of related transaction, become, employees, officers, consultants, Partners or other individuals that provide similar full-time services to the BTG Pactual Group;
- “Permitted Transferee” of a Partner means (i) any spouse (current or former), sibling, lineal descendants, ancestors, heirs, testamentary trustees or legatees of such Partner or of any spouse of such Partner, (ii) any entity that is controlled and wholly-owned by such Partner or any person described in clause (i) above, for so long as it remains such or (iii) any trust (including a charitable remainder trust) or similar arrangement of which such Partner (or any distributee of such trust if such distributee is a person described in clause (i) above) is the primary beneficiary or has an interest; and
- “Strategic Investor” means any *bona fide* third party investor that is unaffiliated with the BTG Pactual Group if BTG Pactual Holding and BTG GP jointly and reasonably determine in good faith that the inclusion of such investor as a holder of our equity securities can reasonably be expected to enhance the earnings, customer base, business reputation, distribution network or prospects of, or products offered by, the BTG Pactual Group.

Partner Non-Competition Agreements

Each of the members of the Senior Management Team have entered into restrictive covenant agreements and for a period of 12 months following the date such member of the Senior Management Team is no longer providing full-time services to, or acting in a similar capacity with respect to, the BTG Pactual Group, such member of the Senior Management Team has agreed to the following restrictions, among other customary restrictions (including those relating to treatment of confidential information and non-disparagement), any of which may be waived by us at any time:

- *Non-Competition:* Such member of the Senior Management Team may not, directly or indirectly, (i) own any equity or debt interests with negative control in any company that engages in the lines of business that are competitive with the business conducted by the BTG Pactual Group in the geographic areas in which the BTG Pactual Group operates as of the relevant time (a “competitive enterprise”), other than certain acquisitions of capital stock of

publicly traded competitive enterprises or (ii) perform services for a competitive enterprise, to the extent such service is similar or substantially related to any activity such member of the Senior Management Team performed (or had direct or indirect managerial or supervisory responsibility) when with the BTG Pactual Group or which calls for similar specialized knowledge or skill as those used by such member of the Senior Management Team in his activities with the BTG Pactual Group during the one-year period prior to his departure from the BTG Pactual Group;

- *Non-Solicitation of Employees:* Such member of the Senior Management Team may not, directly or indirectly (including on behalf of or for the benefit of any competitive enterprise) (i) hire, or assist in the hiring of, any employee of the BTG Pactual Group or (ii) encourage any employee of the BTG Pactual Group to terminate his or her employment with the BTG Pactual Group, including by soliciting any such employee, subject to certain customary exceptions; and
- *Non-Solicitation of Clients:* Such member of the Senior Management Team may not, directly or indirectly (including on behalf of or for the benefit of any competitive enterprise) (i) solicit any business from any active or potential clients of the BTG Pactual Group with which such member of the Senior Management Team had contact or with respect to which the member had confidential information, in each case, prior to such member of the Senior Management Team's departure from the BTG Pactual Group or (ii) request, recommend or encourage any client of the BTG Pactual Group to reduce or terminate any business that such client engages with the BTG Pactual Group.

Shareholders Agreements

Partner Brazil Shareholders Agreement

The Partners, BTG Pactual Holding and we are parties to a shareholders agreement, or the Partner Brazil Shareholders Agreement, which governs the relationship among the Partners with respect to their ownership of the shares of BTG Pactual Holding, and the manner in which the Partners exercise control of BTG Pactual Holding and, indirectly, us. The Partner Brazil Shareholders Agreement does not apply to the Partners in their capacity as Participating Partners in respect of our common shares and Series A preferred shares acquired by the Participating Partners on the same terms as the members of the Consortium in December 2010 or otherwise in respect of any of our shares purchased by Partners in the market following our initial public offering.

Control of Banco BTG Pactual

Except as set forth below, the Partner Brazil Shareholders Agreement provides that prior to the time André Santos Esteves ceases to be engaged on a full time basis as our executive officer, referred to herein as a Termination Event, Mr. Esteves will generally control our management and direct the actions of us and our subsidiaries (including investment vehicles in which we own a majority of the economic interests) (such entities being collectively referred to herein as the "Banco entities"), to the extent applicable though his ownership of a majority of the voting interests of BTG Pactual Holding, which directly owns a majority of our common shares. Following a Termination Event and provided that requisite approvals are obtained from the Central Bank, control of the management of the Banco entities will be exercised by the Top Seven Partners that collectively hold a majority of the voting interests of BTG Pactual Holding. A Termination Event will also occur if Mr. Esteves transfers any of his voting interests in BTG Pactual Holding without the prior consent of three of the Top Seven Partners.

Board of Directors

BTG Pactual Holding is managed by a board of directors, which, prior to a Termination Event, will consist of three members, two of which are elected and removed by Mr. Esteves and one of which is elected and removed by a majority of the Top Seven Partners. Following a Termination Event, the board of

directors of BTG Pactual Holding will consist of seven members, with each Top Seven Partner being entitled to elect and remove one such member.

The Partner Brazil Shareholders Agreement provides that the members of our board of directors, other than any director appointed by the members of the Consortium or nominated by unit holders, will be appointed and removed by BTG Pactual Holding, as the holder of the majority of our outstanding common shares (any such director, referred to as a Partner director), and shall act at the direction of Mr. Esteves, prior to the occurrence of a Termination Event, or the majority of the Top Seven Partners, following a Termination Event.

Preliminary Meetings; Voting Agreement

Two days prior to any shareholders or board of directors meeting (or board of executive officers meeting, to the extent applicable) of any Banco entity, Mr. Esteves and the Top Seven Partners will hold a preliminary meeting to determine whether to approve, and the manner in which to direct, the actions being considered at such board of directors or shareholders meeting. Prior to a Termination Event, Mr. Esteves will control the determination of any such preliminary meeting, except that certain extraordinary actions to be taken by the Banco entities (and certain other activities that relate to the structure and governance of our partnership) also require the approval of three of the seven Top Seven Partners. If any Top Seven Partner is absent from such preliminary meeting, Mr. Esteves is entitled to approve the matter on behalf of the absent Top Seven Partner. Following a Termination Event, the Top Seven Partners holding a majority of the voting interests of BTG Pactual Holding will control the determination of all preliminary meetings.

The Partner Brazil Shareholders Agreement provides that if a matter is not approved at a preliminary meeting in accordance with the foregoing, neither the Banco entity nor any Partner directors or officers of such Banco entity may take any action with respect to such non-approved matter, and the Partners, BTG Pactual Holding and the Partner directors are obligated to vote against the approval of any such non-approved matter at any shareholders meeting or board of directors meeting (or board of officers meeting, to the extent applicable) of the relevant Banco entity, as applicable. If, on the other hand, the matter that was the object of such preliminary meeting was approved, the Partners, BTG Pactual Holding and the Partner directors, as applicable, are required to act to ensure that the matter is approved at the relevant shareholders meeting or board of directors meeting (or board of officers meeting, to the extent applicable) of the relevant Banco entity, as applicable. All of the Partners and BTG Pactual Holding have granted a power of attorney to Mr. Esteves (prior to a Termination Event) or the Top Seven Partners (following a Termination Event) to ensure that all of the equity securities of BTG Pactual Holding held by such Partners and all of our equity securities held by BTG Pactual Holding are voted in accordance with the decisions reached at any such preliminary meeting.

Ownership of Our Common Shares by BTG Pactual Holding

The Partner Brazil Shareholders Agreement provides that if we issue any common shares and preferred shares (other than a pro rata issuance to all shareholders), BTG Pactual Holding will exercise its right to convert a certain number of our Series B preferred shares into our common shares. Such conversion is necessary so that (i) BTG Pactual Holding maintains control of us as required by applicable Brazilian laws and (ii) the number of our common shares continues to be no less than 50% of the total number of our common shares and our preferred shares issued and outstanding at any given time.

PRINCIPAL SHAREHOLDERS

As of the date of this Offering Memorandum, our outstanding capital stock was R\$6,406,862,731.03, fully subscribed and paid-in, represented by 2,714,902,212 shares, all nominative, in book-entry form and without par value, consisting of 1,390,671,404 common shares, 508,380,404 Series A preferred shares and 815,850,404 Series B preferred shares. Our capital stock can be increased (without requiring any amendment to our by-laws) up to the limit of 10,000,000,000 shares, subject to the limitation provided for in article 15, §2, of Brazilian Corporations Law (which restricts the number of preferred shares without voting rights to fifty percent of all issued shares), by resolution of our board of directors, which shall establish the issue price, the number of common shares and/or preferred shares to be issued and any additional conditions for the subscription and payment of such shares. Any increase in our capital stock must be approved by the Central Bank.

The following table sets forth information relating to the ownership of our shares by (i) each beneficial owner of 5.0% or more of our preferred shares or our common shares, (ii) the holders of units that are part of the free float (excluding BTG Pactual Holding) as a group, (iii) the Participating Partners as a group, and (iv) other directors and executive officers of Banco BTG Pactual as a group. The table below does not account for any of our common shares or our preferred shares that may be issued upon conversion of our Series B preferred shares into Series A preferred shares or common shares.

Name	Common	Series A preferred	Series B preferred	% of common	% of preferred
André Santos Esteves ⁽¹⁾	1,154,267,068	35,571,732	815,850,404	83.00	64.30
Members of the Consortium ⁽²⁾	85,074,967	170,149,934	—	6.12	12.85
Participating Partners as a group (other than André Santos Esteves) ⁽³⁾	12,105,324	24,210,648	—	*	*
Directors and executive officers as a group (other than André Santos Esteves) ⁽⁴⁾	8,051,048	16,102,096	—	*	*
Celfin Partners ⁽⁵⁾	19,865,336	39,730,672	—	*	*
Bolsa y Renta Partners ⁽⁶⁾	2,302,068	4,604,136	—	*	*
Free float (excluding BTG Pactual Holding)	117,056,641	234,113,282	—	8.42	17.68
Total⁽⁷⁾	1,390,671,404	508,380,404	815,850,404	100.00	100.00

* Represents less than 5%

- (1) Our common shares, Series A preferred shares and Series B preferred shares reported in the table above as beneficially owned by Mr. Esteves as of the date of this Offering Memorandum include (i) 8,785,866 common shares and 17,571,732 Series A preferred shares held directly by Mr. Esteves (including through his family members or through trusts or other entities established for his benefit or the benefit of his family members), in his capacity as a Participating Partner, and (ii) 1,145,481,202 common shares, 18,000,000 Series A preferred shares and 815,850,404 Series B preferred shares, which represent all of the common shares, Series A preferred shares and Series B preferred shares held directly by BTG Pactual Holding and which may be deemed to be beneficially owned by Mr. Esteves by virtue of Mr. Esteves' (including through his family members or through trusts or other entities established for his benefit or the benefit of his family members) ability to exercise control over BTG Pactual Holding as a result of his ownership of a majority of the outstanding voting common shares of BTG Pactual Holding. Mr. Esteves disclaims beneficial ownership of our common shares, Series A preferred shares and Series B preferred shares which may be deemed to be beneficially owned by Mr. Esteves indirectly, through BTG Pactual Holding, except to the extent of his pecuniary interest in BTG Pactual Holding. Mr. Esteves' pecuniary interest in BTG Pactual Holding is approximately 28.22%.
- (2) As of the date of this Offering Memorandum, each member of the members of the Consortium owns the following equity interest in us: (i) Pacific Mezz Investco S.A.R.L. holds 17,620,467 common shares and 35,240,934 Series A preferred shares; (ii) Beryl County LLP holds 17,620,467 common shares and 35,240,934 Series A preferred shares; (iii) Ontario Teachers' Pension Plan Board (OTPP) holds 16,580,311 common shares and 33,160,622 Series A preferred shares; (iv) Hanover Investments (Luxembourg) S.A. holds 12,435,233 common shares and 24,870,466 Series A preferred shares; (v) Europa Lux III S.a.r.l. holds 9,799,825 common shares and 19,599,650 Series A preferred shares; (vi) RIT Capital Partners plc holds 702,861 common shares and 1,405,722 Series A preferred shares; (vii) Marais LLC holds 1,861,120 common shares and 3,722,240 Series A preferred shares; (viii) Sierra Nevada Investments LLC holds 6,632,124 common shares and 13,264,248 Series A preferred shares; (ix) EXOR S.A. holds 270,332 common shares and 540,664 Series A preferred shares and (x) Rendefeld, S.A. holds 1,552,227 common shares and 3,104,454 Series A preferred shares. The ownership table set forth above aggregates, for informational

purposes only, the equity interests in us held by each of the members of the Consortium. However, such presentation should not be viewed as an indication that the members of the Consortium are a group or share beneficial ownership of the aggregate equity interests reported in such table. Each member of the Consortium disclaims beneficial ownership of any equity interests in us owned by any other member of the Consortium, and each member of the Consortium's beneficial ownership of equity interests in us is limited to the number of such interests held by such member of the Consortium as expressly set forth in this footnote 2.

- (3) Our common shares and Series A preferred shares reported in the table above as beneficially owned by the Participating Partners (other than Mr. Esteves) as a group as of the date of this Offering Memorandum represent the number of such shares held directly by such Participating Partners, as a group, (including through their family members or through trusts or other entities established for their benefit or the benefit of their family members), in their capacity as Participating Partners and does not include any of our equity interests that are held by BTG Pactual Holding and may be deemed to be beneficially owned by such Participating Partners indirectly by virtue of their pecuniary interest in BTG Pactual Holding.
- (4) The directors and executive officers as a group includes those individuals listed under "Management—Board of Directors; Board of Executive Officers" other than Mr. Esteves (see footnote 1). While John Joseph Oros, Dr. Linbo He (Ludwig), William T. Royan and Juan Carlos García Canizares may be affiliated with certain members of the Consortium, they disclaim beneficial ownership of any of our shares held by such affiliated members of the Consortium and as a result are not deemed (for purposes of the table above) to have any beneficial ownership of any of our shares. See "Management—Board of Directors." The remaining individuals are Partners and certain of them are Participating Partners. The number of shares reported in the table above as beneficially owned by our directors and executive officers as a group (other than Mr. Esteves) (representing 0.58% of our outstanding common shares and 1.22% of our outstanding preferred shares) are limited to those shares held directly by such remaining individuals as of the date of this Offering Memorandum in their capacity as Participating Partners, which shares are a subset of the shares reported in the table above as beneficially owned by the Participating Partners (other than Mr. Esteves) as a group (see footnote 3). In addition, although not reported in the table above as beneficially owned by such remaining individuals, such remaining individuals may be deemed to have beneficial ownership, indirectly through their pecuniary interest in BTG Pactual Holding, of approximately 33.19% of the common shares and preferred shares held directly by BTG Pactual Holding, which represents, collectively, approximately 27.34% of our common shares and 20.90% of our preferred shares outstanding as of the date of this Offering Memorandum.
- (5) The partners of Celfin as a group collectively directly hold 1.43% of our common shares and 3.0% of our preferred shares outstanding as of the date of this Offering Memorandum.
- (6) The partners of Bolsa y Renta as a group collectively directly hold 0.17% of our common shares and 0.35% of our preferred shares outstanding as of the date of this Offering Memorandum.
- (7) Since Mr. Esteves controls BTG Pactual Holding and may be deemed to have beneficial ownership of all of our shares held by BTG Pactual Holding, for purposes of calculating the total shares held by all persons in the table above, the number of our shares that may be deemed to be beneficially owned by the other directors and executive officers by virtue of their pecuniary interest in BTG Pactual Holding (as reported in footnote 4 above) have been ignored to avoid double counting. In addition, the number of shares reported in the table above as owned by Directors and executive officers as a group (other than Mr. Esteves) have been ignored for purposes of calculating the total shares held by all persons in the table above since such shares are duplicative of the shares reported in the table above as owned by the Participating Partners as a group (other than Mr. Esteves).

RELATED PARTY TRANSACTIONS

We engage in related party transactions with certain of our affiliates in the ordinary course of our business, including financing facilities and commercial and services agreements. We believe that these transactions are carried out on an arms-length basis, in accordance with ordinary market practices.

We summarize below certain material agreements entered into with related parties:

Loans

From time to time, including in connection with the acquisition of Banco BTG Pactual, and in connection with the purchase of shares in each of us and BTG Pactual Holding as part of Reallocation Transfers (see “Our Partnership”), BTG Loanco, LLC, a Delaware limited liability company and wholly-owned subsidiary of BTGI, or BTG Loanco, made loans, referred to herein as the Banco BTG Pactual Partner Loans, to certain Partners, in such capacity, the Banco BTG Pactual Debtor Partners, the proceeds of which were used to fund all or a portion of their investment in us and BTG Pactual Holding. The Banco BTG Pactual Partner Loans mature 20 years after the date of the loan, unless otherwise accelerated as provided below. As of December 31, 2012, the aggregate original principal amount that remained outstanding under such loans (excluding any adjustments to such principal based on the prevailing CDI Rate as described below) was approximately R\$497.2 million. Because of the steps we have taken to ensure that our partnership model will not change following our initial public offering, we expect to continue to make additional Banco BTG Pactual Partner Loans. See “Our Partnership—Continuation of Purchase/Sale Right.”

The Banco BTG Pactual Partner Loans are denominated in *reais*. The outstanding principal of the Banco BTG Pactual Partner Loans will be adjusted from time to time based on the prevailing CDI Rate. The outstanding principal of the Banco BTG Pactual Partner Loans is adjusted by the prevailing CDI Rate on each date that a voluntary or mandatory prepayment is made (or is required to be made).

Banco BTG Pactual Debtor Partners must make mandatory prepayments on the outstanding amounts of the Banco BTG Pactual Partner Loans if any cash distributions or other cash payments are made to the Banco BTG Pactual Debtor Partners on account of their ownership of any shares in Banco BTG Pactual or shares in BTG Pactual Holding or if the Banco BTG Pactual Debtor Partner receives any proceeds from the sale or other disposition of such shares. Banco BTG Pactual Debtor Partners may also voluntarily prepay the Banco BTG Pactual Partner Loans without penalty or premium. In addition, in connection with the payment of annual cash bonuses to Partners, we have generally determined the amount of such bonus that Banco BTG Pactual Debtor Partners are permitted to retain and required Banco BTG Pactual Debtor Partners to use the remainder of such bonus, on an after-tax basis, to pay down outstanding amounts due under their respective Banco BTG Pactual Partner Loans or loans made by BTGI to certain Partners. The amount of such bonuses that may be retained by Banco BTG Pactual Debtor Partners is generally applied equally among all Banco BTG Pactual Debtor Partners of the same class (determined based upon the country in which they are based and the ownership interest they hold in Banco BTG Pactual and/or BTG Pactual Holding), although exceptions were made on case by case basis for Partners demonstrating specific liquidity needs. Although the use of bonuses to pay down outstanding loan balances is not required by the terms of the Banco BTG Pactual Partner Loans, a Partner who fails to comply with such policy understands that as a result of such failure, BTG Pactual Holding may exercise its rights to repurchase the shares owned by such Partner at book value. See “Our Partnership.”

The Banco BTG Pactual Partner Loans contain events of default, such as payment defaults, bankruptcy and insolvency, and if the Banco BTG Pactual Debtor Partner grants a lien or other encumbrance (other than permitted liens or encumbrances) on its shares (or ceases to own any shares) of Banco BTG Pactual or BTG Pactual Holding. In the case of an event of default, BTG Loanco may, among other things, and subject to certain limitations, declare any amounts outstanding under the Banco BTG Pactual Partner Loan immediately due and payable.

Each Banco BTG Pactual Debtor Partner pledged all of the shares of Banco BTG Pactual and BTG Pactual Holding owned by such Banco BTG Pactual Debtor to BTG Loanco as security for payment of, and performance of obligations under, the Banco BTG Pactual Partner Loans.

Asset Management Services

In the ordinary course of our business, we provide a broad range of asset management services to BTGI, as well as to the Merchant Banking Partnership, an exempted limited partnership owned by our Partners and through which our Partners conduct certain merchant banking investments in Brazil.

On March 31, 2010, BTGI transferred BTG Alpha for R\$92.4 million to the Merchant Banking Partnership. Following such sale, on April 1, 2010, the Merchant Banking Partnership started to pay a management fee equal to 2.0% of the total AUM of the Merchant Banking Partnership and a performance fee equal to 20.0% of the return on the investments to our asset management unit, which is serving as the investment advisor to such partnership.

In addition, after the sale of BTG Alpha by BTGI, virtually all of BTGI's merchant banking investments and investments in multi-asset funds are managed by BTG Pactual Asset Management S.A. DTVM, our wholly owned subsidiary. In connection with these services, we receive management fees, which are calculated as a percentage of asset value (that may vary by asset class) and committed capital, invested capital and total gross acquisition cost with respect to the funds and investment vehicles in which BTGI invests, and performance fees, when returns of these funds and vehicles exceed specified benchmarks or other performance targets. We receive these fees from BTGI and other investors investing in the same funds or vehicles in accordance with their respective interests in the funds. With respect to exclusive funds created for BTGI, we believe that the fees we charges are in line with the fees charged by us for exclusive funds created for other clients. For the year ended December 31, 2012, we recorded an aggregate revenue of R\$217.8 million, in asset management fees from BTGI, and R\$16.4 million, in asset management fees from the Merchant Banking Partnership.

Investments by BTGI in Banco BTG Pactual

In the ordinary course of its business, BTGI maintains bank accounts with, and has invested in certain financial products offered by us and certain of our subsidiaries, including medium-term notes (acquired in the secondary market), demand deposits and time deposits. In addition, BTGI has entered into several financial derivative contracts with us. As of December 31, 2012, our net position with respect to such activities resulted in a liability of R\$30.0 million.

Partner Non-Competition Agreements

Please see the section entitled "Our Partnership—Partner Non-Competition Agreements" for a description of these agreements.

Partner Brazil Shareholders Agreement

Please see the section entitled "Our Partnership—Shareholders Agreements—Partner Brazil Shareholders Agreement" for a description of this agreement.

Consortium Shareholders Agreement

Please see the section entitled "Management—Consortium Shareholders Agreement" for a description of this agreement.

INDUSTRY OVERVIEW

Most of our operations are conducted in Brazil. Accordingly, we are significantly affected by the general economic environment in Brazil. In addition, we derive substantial revenues from non-Brazilian securities and, therefore, are also subject to global economic conditions, and in particular, fluctuations in worldwide financial markets. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Macroeconomic Environment.”

The table below sets forth selected key industry indicators for the periods indicated:

	Key Industry Indicators					CAGR 2008- 2012
	For the year ended December 31,					
	2008	2009	2010	2011	2012	
	(Volume in US\$ billions, unless otherwise indicated)					
General economic activity						
Worldwide gross domestic product ⁽¹⁾	61,213.2	57,875.5	63,134.7	69,971.5	-	-
Brazil gross domestic product ⁽²⁾	1,650.2	1,624.9	2,142.9	2,474.5	-	-
Advisory activities/financing						
Worldwide equity issued ⁽³⁾	635.2	907.8	896.2	629.6	661.8	1.0%
Worldwide debt issued ⁽³⁾	2,371.7	3,698.3	3,085.1	3,081.8	3,903.9	13.2%
Worldwide mergers and acquisitions ⁽⁴⁾	2,868.3	2,009.8	2,395.6	2,578.7	2,579.5	(2.6)%
Worldwide AUM (US\$ trillion) ⁽⁵⁾	64.2	72.5	78.7	79.8	85.2	7.3%
World equity markets						
NYSE Euronext (U.S.) equity market capitalization ⁽⁶⁾	9,208.9	11,837.8	13,394.1	11,795.6	14,085.9	11.2%
Brazilian market capitalization ⁽⁶⁾	592.0	1,337.2	1,545.6	1,228.9	1,227.4	20.0%
IBOVESPA Index (in points) ⁽⁷⁾	37,550.3	68,588.4	69,304.8	56,754.1	60,952.1	12.9%
Dow Jones Industrial Average (in points) ⁽⁷⁾	8,776.4	10,428.1	11,577.5	12,217.6	12,720.5	9.7%
S&P 500 (in points) ⁽⁷⁾	903.3	1,115.1	1,257.6	1,257.6	1315.4	9.9%
BM&FBOVESPA average daily volume ⁽⁸⁾	3.0	2.7	3.7	3.9	3.7	5.4%
Brazilian economic data						
CDI rate ⁽⁹⁾	12.3%	9.8%	9.7%	11.6%	8.4%	(9.2)%
SELIC rate ⁽¹⁰⁾	13.8%	8.8%	10.8%	11.0%	7.25%	(14.8)%
Inflation (IPCA) ⁽¹¹⁾	5.9%	4.3%	5.9%	6.5%	5.8%	(0.3)%

Sources:

- (1) World Bank.
- (2) IBGE.
- (3) Dealogic Analytics.
- (4) Thomson Financial.
- (5) International Financial Services London.
- (6) World Federation of Exchanges.
- (7) Bloomberg.
- (8) BM&FBOVESPA.
- (9) The Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI, is the average daily interbank deposit rate in Brazil (at the end of each month and annually), as reported by OTC Clearing House (*Balcão Organizado de Ativos e Derivativos*), or CETIP.
- (10) The benchmark interest rate payable to holders of some securities issued by the Brazilian government and traded on the SELIC, as reported by the Central Bank.
- (11) IBGE.

Investment Banking

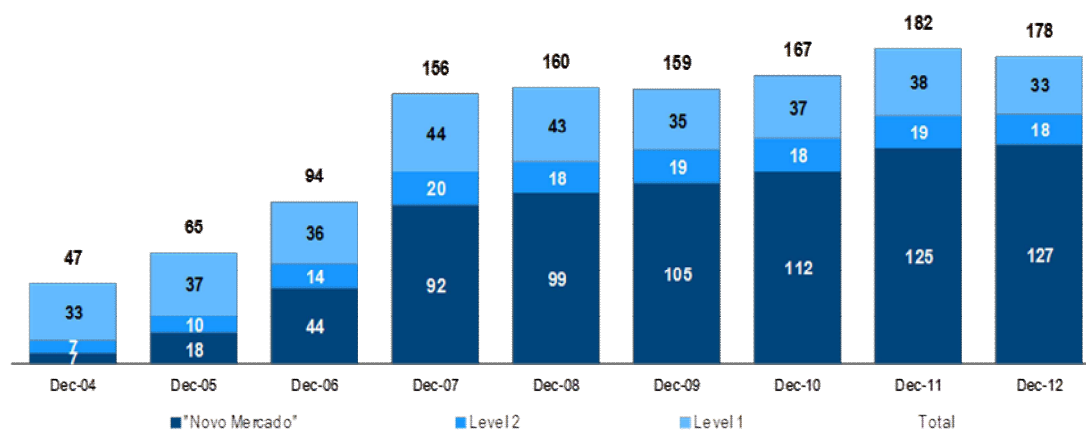
The investment banking industry in Brazil is intensely competitive and comprised of Brazilian and international banks, financial institutions and advisory boutiques. These entities provide a wide range of services, including underwriting and placement services in capital raising transactions through public and private equity markets, M&A and advisory services, as well as other financial and structured products and services for corporations, financial institutions, investment funds, governments and individuals.

The capital markets segment for larger transactions is dominated by the top five financial institutions—mainly large banks. However, recently local wholesale banks have increased their position in this market. The M&A and advisory market is slightly less concentrated, primarily because this market also comprises smaller M&A investment boutiques and includes significant variation with respect to transaction size.

Equity Capital Markets

Over the last several years, equity capital markets in Brazil have shown heightened activity due to favorable market conditions. The attractiveness of BM&FBOVESPA is reflected by the number of companies that have become publicly traded on the “Novo Mercado” and at corporate governance “Level 1” and “Level 2” in recent years. As of December 31, 2012 there were 178 companies listed on BM&FBOVESPA at corporate governance “Novo Mercado” “Level 1” and “Level 2,” an increase of 278.7% compared to 47 companies that were listed in December 2004.

The graph below shows the number and listing segment of companies publicly traded on BM&FBOVESPA as of the dates indicated:



Source: BM&FBOVESPA

The fees payable to financial institutions underwriting equity capital market transactions are typically a percentage of the transaction’s value, generally paid only when the transaction settles. The fee is typically comprised of a base fee and an incentive fee, which are determined upon the completion of the transaction at the discretion of the company and/or shareholders.

The underwriters in equity offerings are typically investment banks, large commercial or retail banks with investment banking divisions and other advisory boutiques firms.

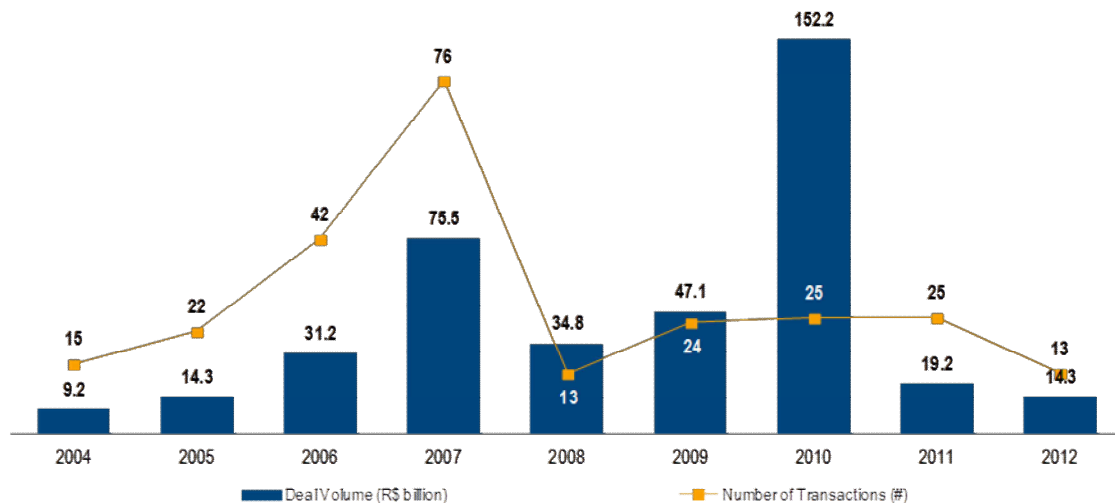
The table below shows the ranking of the most active banks in the Brazilian equity capital markets from 2004 until December 31, 2012:

Bank	Ranking: volume	Ranking: number of offerings	Volume (in R\$ millions)	Number of offerings
Banco BTG Pactual S.A.	2	1	49,758	126
Banco de Investimentos Credit Suisse (Brasil) S.A.	3			
		2	45,488	109
Banco Itaú BBA S.A.	1	3	53,988	109
Banco Santander (Brasil) S.A.	4	4	30,025	44
Banco Merrill Lynch de Investimentos S.A.	6	4	24,085	44
Banco Bradesco BBI S.A.	5	6	26,436	40
Banco JP Morgan S.A.	9	7	12,441	31
Banco Morgan Stanley S.A.	8	8	22,048	26
Banco Citibank S.A.	7	9	22,095	23
Banco do Brasil Banco de Investimento S.A.	10	10	9,028	19

Source: ANBIMA

In 2008, despite worsening market conditions and the onset of the global economic and financial crisis, there were 13 equity offerings in Brazil, raising R\$34.8 billion in capital. In 2009, there were 24 equity offerings, raising R\$47.1 billion in capital, and, in 2010, the number of equity offerings remained relatively stable, with a total of 25 equity offerings, raising R\$152.2 billion. This considerable increase in the capital raising in 2010 was mainly due to a Petrobras follow-on equity offering in the amount of R\$120.2 billion. During the first half of 2011, markets were generally receptive to equity offerings; however, during the second half of 2011, the unstable and uncertain global economic environment, which was reflected to some degree by concerns with fiscal imbalances in Europe, ultimately impacted the equity capital markets in Brazil. From July 2011 until the end of 2011, equity offerings in Brazil generally ceased, with only two follow-on offerings occurring in October 2011. As a result, there were a total of 25 equity offerings in Brazil in 2011, raising R\$19.2 billion in capital. During 2012, there were a total of 13 equity offerings in Brazil, raising R\$14.3 billion, with activity being concentrated during the second and fourth quarters of the year. Activity has been increasing since year end 2012 and equity capital markets are demonstrating a positive trend in the beginning of 2013. According to the CVM, for the entire period between 2008 and 2012, there was a total of R\$202.1 billion raised in equity offerings in Brazil, of which R\$56.3 billion were IPOs and R\$211.2 billion were follow-on offerings.

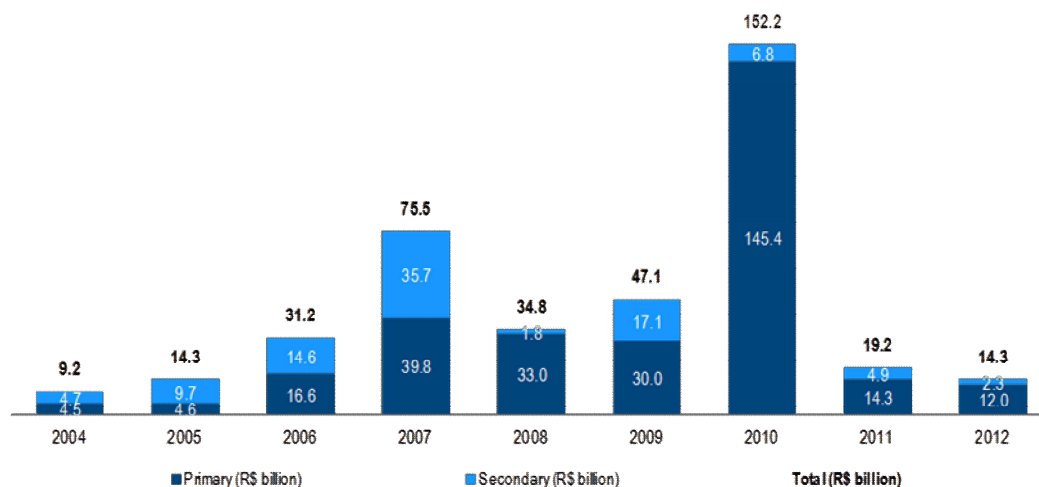
The graph below presents the number and volume (in R\$ billions) of offerings for the periods indicated:



Source: CVM

Companies access capital markets for several reasons, including strengthening their balance sheets, funding their growth strategies and optimizing their capital structure. To accomplish any of these objectives, a company often participates in a primary equity offering. Additionally, a shareholder or group of shareholders may request or require a company to sell equity stakes in the company for a variety of reasons, in which case the company would carry out a secondary offering. For example, many private equity funds use secondary offerings as an exit strategy to divest their initial investments in a company. Secondary offerings may positively impact the asset and wealth management industry to the extent to which selling shareholders become potential new clients.

The graph below shows the breakdown between primary and secondary offerings for the periods indicated:



Source: CVM

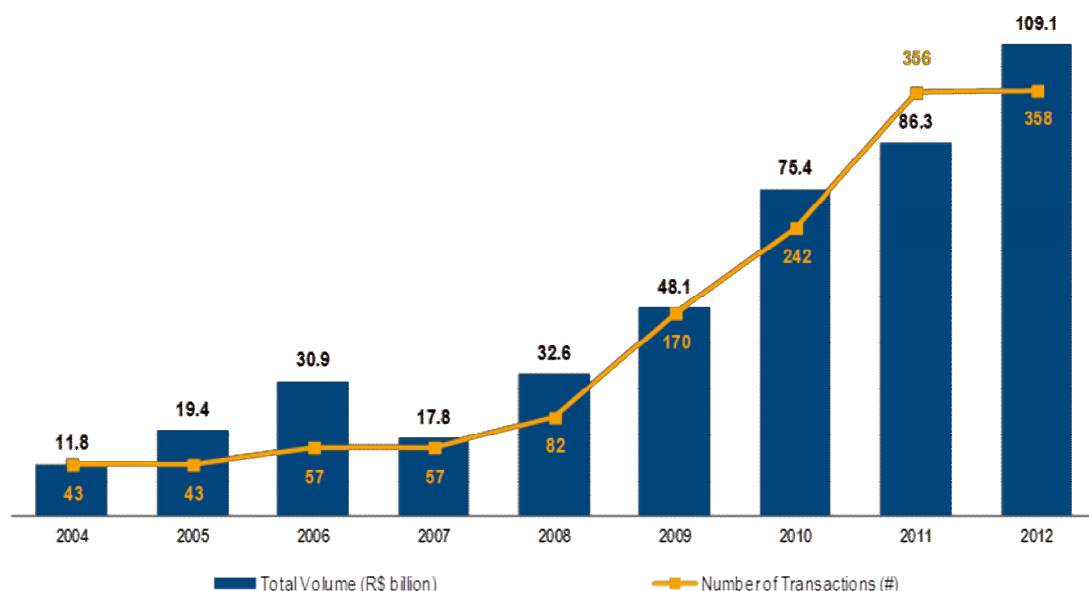
In terms of volume (in R\$ billions), primary offerings represented 94.9% of the total offerings in 2008, 63.6% in 2009, 95.5% in 2010, 74.7% in 2011 and 84.2% in 2012. This breakdown shows that companies accessed the equity capital markets mostly to raise new capital between 2008 and 2012.

Debt Capital Markets

Debt capital markets have also shown positive growth in the last several years. In order to reach an optimal capital structure and finance business activities, many companies also issue debt in public offerings.

In 2008, there was a total of 82 debt offerings in Brazil in an aggregate amount of R\$32.6 billion according to ANBIMA, as compared to 358 debt offerings in an aggregate amount of R\$109.1 billion in 2012, representing a CAGR of 35.3% in the aggregate reais amount of offerings for such period. Between 2008 and 2012, there was a total of 1,208 debt offerings by Brazilian companies in Brazil in an aggregate amount of R\$351.4 billion.

The graph below shows the number and volume (in R\$ billions) of debt offerings in Brazil consummated by Brazilian companies for the periods indicated:



Source: ANBIMA

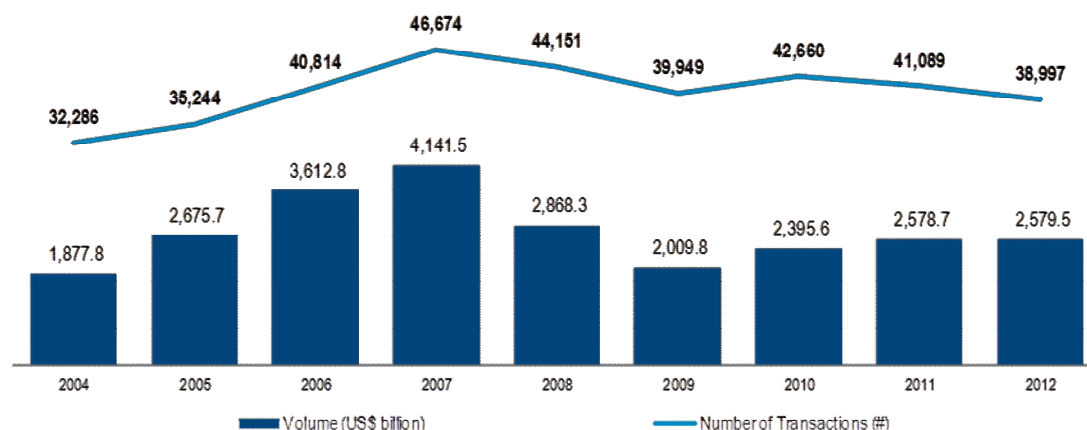
M&A and Advisory

The M&A and advisory segment consists of a broad range of services with respect to mergers and acquisitions, divestitures, restructurings, spin-offs and reorganizations. M&A and advisory services are typically rendered by investment banks, boutique advisory firms, financial advisory firms, law firms and other financial institutions.

M&A advisory services generally generate the majority of revenues within the advisory services segment. The volume of M&A transactions worldwide reached its peak in 2007, with a global volume of US\$4,141.5 billion in total announced deals. More recently, this volume has decreased to US\$2,868.3 billion in 2008, US\$2,009.8 billion in 2009, US\$2,395.6 billion in 2010, US\$2,578.7 billion in 2011 and US\$2,579.5 billion in 2012. This decrease in volume coincided with the onset of the 2008 global economic and financial crisis. In that uncertain economic environment, many companies faced challenges with respect to revenues, profitability and cash balance, thus causing, in some cases, changes to companies' strategic planning and positioning for the medium-term. As a result, transactions were postponed or even

terminated. In 2011, the effects of the European debt crisis continued to pose challenges for companies and their operations, which have impacted their investment and M&A decisions. Recent challenges in Europe due to the Greece debt crisis and Spanish banking crisis commencing in the beginning of 2012 negatively impacted M&A activity during 2012.

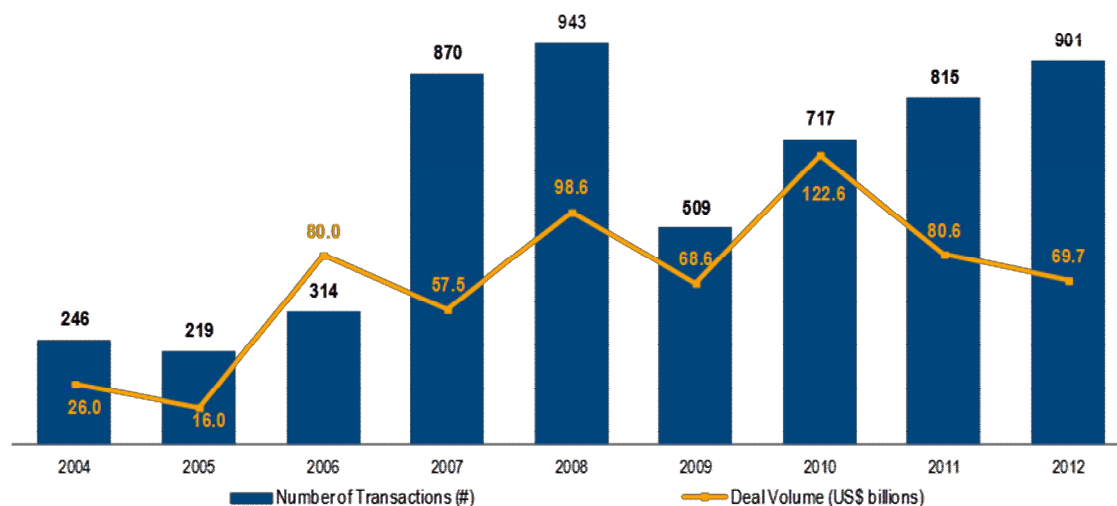
The graph below shows the number and total deal volume (in US\$ billions) of announced global M&A transactions for the periods indicated:



Source: Thomson Financial

Despite the recent global M&A environment, the Brazilian M&A market has generally remained strong. In 2012, total deal volume (in US\$ billions) of announced M&A transactions in Brazil was US\$69.7 billion, in a total of 901 transactions. Because M&A transactions can take several months to close, M&A activity reached US\$98.6 billion in 2008, mostly stemming from activity from prior years. During 2009 and 2010, the Brazilian economy underwent a strong consolidation phase, where more capitalized companies had the opportunity to pursue strategic acquisitions in order to leverage their businesses, gain market share and pursue complimentary business lines. In 2009, due to the effects of the global economic and financial crisis, M&A activity in Brazil totaled US\$68.6 billion. As economic conditions improved in 2010, with higher growth rates, increased domestic consumption levels and a favorable international environment, the Brazilian M&A market reached its five-year peak, with a total transaction volume of US\$122.6 billion. Buoyed by market confidence, M&A activity in Brazil remained strong during the first half of 2011, however, activity slowed during the second half of 2011 due to the impact of the European debt crisis. Although the European debt crisis deepened during the end of 2011 and the beginning of 2012, Brazilian M&A activity remained relatively strong during 2012 due to confidence in the Brazilian macroeconomic environment.

The graph below shows the number and total deal volume (in US\$ billions) of announced M&A transactions in Brazil for the periods indicated:



Source: Thomson Financial

Sales and Trading

Sales and trading is a large and diversified industry segment consisting of a variety of customer-driven market-making and trading activities. The primary products of sales and trading include market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes. Sales and trading includes both FICC (fixed income, currency and commodities) and equity sales and trading activities.

In Brazil, equities, futures and certain other derivatives are primarily traded on BM&FBOVESPA, while fixed income, foreign exchange and credit-linked derivatives, as well as fixed income securities and government bonds, are primarily traded on the OTC market. In the international markets, we trade most of the derivatives and debt instruments on the OTC market, while equities in the form of American Depositary Receipts, or ADRs, are traded on the NYSE.

The liquidity of the instruments that we trade is critical in attracting and retaining customers. The liquidity of an instrument (i.e., the ease and speed with which it can be acquired or sold with the least impact on price) depends on many factors, including the number of participants and intermediaries trading in an instrument and the availability of reliable reference prices. Liquid markets are characterized by efficiency in the execution of trades and large trading volumes. Illiquid markets are characterized by having few participants, low levels of transparency in price discovery and low trading volumes. The volume of contracts traded on an exchange is widely recognized as a liquidity indicator, as is the volume of public securities traded in the interbank market.

Derivatives Trading

Exchange-traded derivatives markets trade standardized derivatives contracts on an organized trading floor and/or electronic trading system and facilitate price discovery in relation to supply and demand. OTC derivatives markets trade customized derivatives contracts and, unlike exchange-traded markets, facilitate direct trading between parties in a wide range of contracts with specific characteristics in terms of size, underlying assets, maturity and settlement criteria. The main contracts traded on the OTC market are forwards, swaps and options. The main derivatives instruments are futures, options and swaps linked to agricultural commodities (including physical delivery commodities such as metals and energy products), interest rates, equity indices, price indices, foreign currencies and other assets or securities.

These instruments, which are used in nearly every sector of the world economy, enable risk management and the ability to execute different investment strategies. Interaction between participants (those seeking to mitigate and manage risks and those assuming risks with the expectation of making a profit) contribute to the creation of active, liquid and competitive markets.

According to the Futures Industry Association, in the six months period ended June 2012, the largest exchange in terms of number of futures and derivatives contracts traded was the CME Group, with approximately 1.56 billion contracts. According to this ranking, BM&FBOVESPA was the sixth largest derivatives exchange in the world with approximately 866 million contracts.

The table below shows the top ten derivatives exchanges in the world in terms of the number of derivatives contracts traded according to data published by the Futures Industry Association for the periods indicated:

Rank	Exchange	Number of Contracts		Change (%)
		Jan-Jun 2011	Jan-Jun 2012	
1	CME Group (includes CBOT and Nymex).....	1,707,753,108	1,555,139,920	(8.9)%
2	Korea Exchange.....	2,123,575,352	1,393,952,642	(34.4)%
3	Eurex (includes ISE).....	1,420,888,471	1,262,493,530	(11.1)%
4	NYSE Euronext (includes all E.U. and U.S. Markets).....	1,168,876,566	1,025,021,760	(12.3)%
5	National Stock Exchange of India	1,047,731,045	971,832,759	(7.2)%
6	BM&FBOVESPA	733,931,021	865,563,928	17.9%
7	CBOE Group (includes CFE and C2).....	595,206,770	605,315,992	1.7%
8	NASDAQ OMX Group (includes U.S. and Nordic Markets).....	653,287,503	567,972,994	(13.1)%
9	Russia Trading Systems Stock Exchange	443,900,690	506,115,520	14.0%
10	Multi Commodity Exchange of India (includes MCX SX) ..	567,633,623	489,311,649	(13.8)%

Source: Futures Industry Association

The exchange-traded derivatives market has recently experienced strategic changes driven by the following factors:

- market participants have become increasingly demanding and have replaced passive investment strategies with active ones, putting pressure on the financial services segment to use sophisticated risk management techniques. In particular, financial institutions and international hedge funds have committed increasing amounts of capital to futures and options trading;
- deregulation and market liberalization in the financial services segments in the United States, Europe and Asia have expanded customer access to products and markets, lowering regulatory barriers to the introduction of innovative products and encouraging consolidation in the sector; and
- technological advances have contributed to the decentralization of exchanges and the introduction of alternative trading systems. By using electronic trading platforms, market participants worldwide can trade certain products virtually 24 hours a day and, in some cases, without the use of intermediaries.

According to BM&FBOVESPA, the average daily traded volume of futures and options contracts has grown from 1,740.3 thousand contracts in 2008 to 2,898.7 thousand contracts in 2012, which represents a CAGR of 10.7% for such period.

The tables below show the average daily traded volume of the securities listed below on BM&FBOVESPA for the periods indicated:

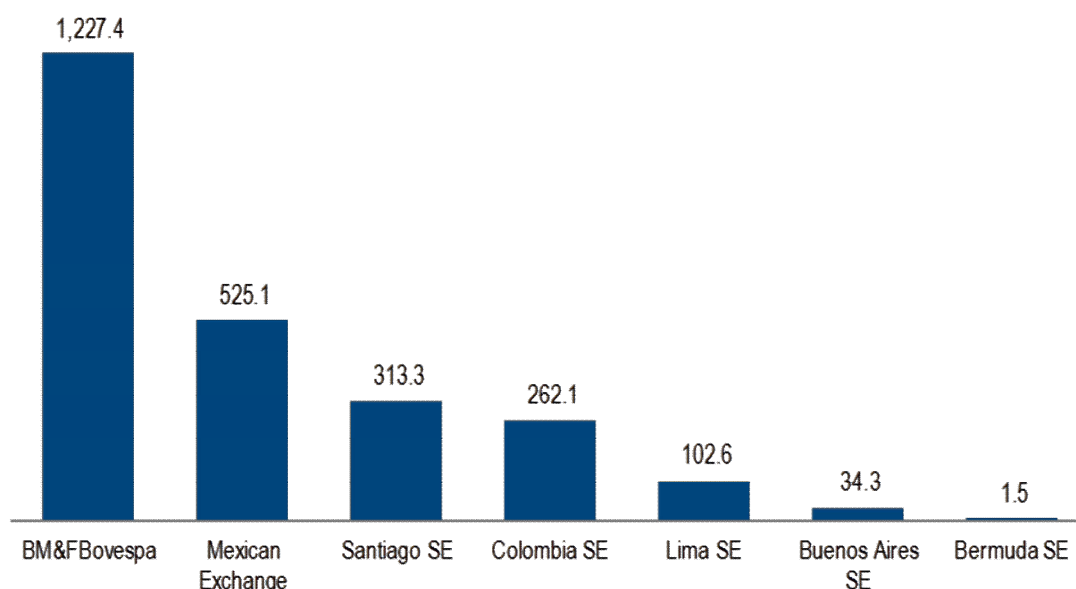
	For the year ended December 31,					CAGR
	2008	2009	2010	2011	2012	2008-2012
Interest rates in Brazilian <i>reais</i>	788.7	843.5	1,683.6	1,797.2	1,925.7	25.0%
Foreign exchange rates	534.9	447.1	54.6	495.5	493.9	(2.0)%
Stock indices	87.6	80.0	89.4	123.3	143.1	13.0%
Interest rates in U.S. dollars.....	94.3	78.3	89.7	145.2	149.8	12.3%
Commodities	14.9	10.2	12.9	13.2	11.2	(6.9)%
Web trading	40.5	52.6	75.6	114.4	165.7	42.3%
OTC contracts.....	12.4	9.3	12.9	11.7	9.2	(7.3)%
Total.....	1,573.3	1,521.0	2,504.7	2,700.6	2,898.7	16.5%

Source: BM&FBOVESPA

Stock Exchanges

Stock exchanges are organized and centralized markets, which facilitate the trading and price formation of securities issued by companies, funds and other vehicles for the purpose of raising capital. For most stock exchanges, depository, clearing and settlement services are rendered by independent organizations, although some stock exchanges, including BM&FBOVESPA, have adopted a vertical structure, integrating all of these activities into a single medium. BM&FBOVESPA is by far the largest stock exchange in Latin America in terms of total domestic market capitalization.

The graph below shows the market capitalization (in US\$ billions) of the largest stock exchanges in Latin America as of December 31, 2012:



Source: World Federation of Exchanges

The table below sets forth information on the value traded in the securities markets for the periods indicated:

	For the year ended December 31,					CAGR
	2008	2009	2010	2011	2012	2008-2012
Total Financial Trading Value						
	(R\$ millions, except percentages)					
BM&FBOVESPA segment stocks and equity derivatives	1,374.5	1,300.2	1,602.3	1,616.2	1,782.2	6.7%
Cash market	1,285.4	1,216.2	1,489.8	1,518.0	1,687.9	7.0%
					25.4	(12.9)
Forward market.....	44.3	23.7	36.4	29.4		%
Options market.....	44.9	60.3	76.1	68.8	68.9	11.3%
Fixed income and others	1.3	0.4	0.4	0.3	1.5	2.9%
BM&FBOVESPA total	1,375.8	1,300.6	1,602.7	1,616.4	1,783.7	6.7%

Source: BM&FBOVESPA

The average daily traded value of the securities listed below increased over the past five years, as shown in the following charts:

	For the year ended December 31,					CAGR
	2008	2009	2010	2011	2012	2008-2012
Average Daily Traded Value						
	(R\$ millions, except percentages)					
BM&FBOVESPA segment stocks and equity derivatives	5,520.3	5,285.2	6,486.9	6,490.6	7,244.8	7.0%
Cash market	5,162.3	4,943.7	6,031.6	6,096.3	6,861.3	7.4%
Forward market.....	177.8	96.5	147.4	118.0	103.4	-12.7%
Options market.....	180.2	245.0	307.9	276.3	280.1	11.7%
Fixed income and others	5.2	1.6	1.8	1.1	6.0	3.2%
BM&FBOVESPA total	5,525.5	5,286.8	6,488.6	6,491.6	7,250.7	7.0%

Source: BM&FBOVESPA

Brazilian Lending Operations

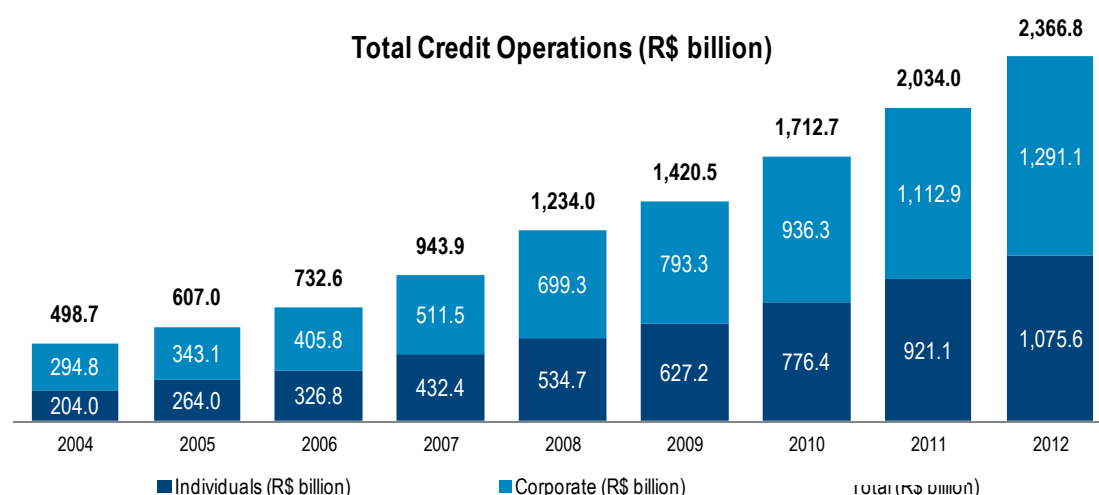
The Brazilian banking industry underwent important structural changes in the last two decades, from an environment of high inflation during the 1980s and the beginning of the 1990s, to an environment marked by low rates of inflation and greater macroeconomic and monetary stability beginning in 1994, when the *Real Plan* was introduced. Because of the macroeconomic stability resulting from the implementation of the *Real Plan*, there has been a steady growth in demand for credit in Brazil. In addition, Brazilian banks have recently diversified the types of financial products offered to their clients.

Access to banking services facilitates participation in the economy, fosters the formalization of transactions, spreads access to credit for consumption, investments, payment services, collection services and insurance and reduces loan-sharking. In order to broaden access to banking services, the Brazilian government has implemented measures to promote credit and reduce bank spreads, including the creation of clearer rules for payroll loans, new credit instruments such as bank credit bills (*cédulas de crédito bancário*) and incentives to offer credit to small companies, among others.

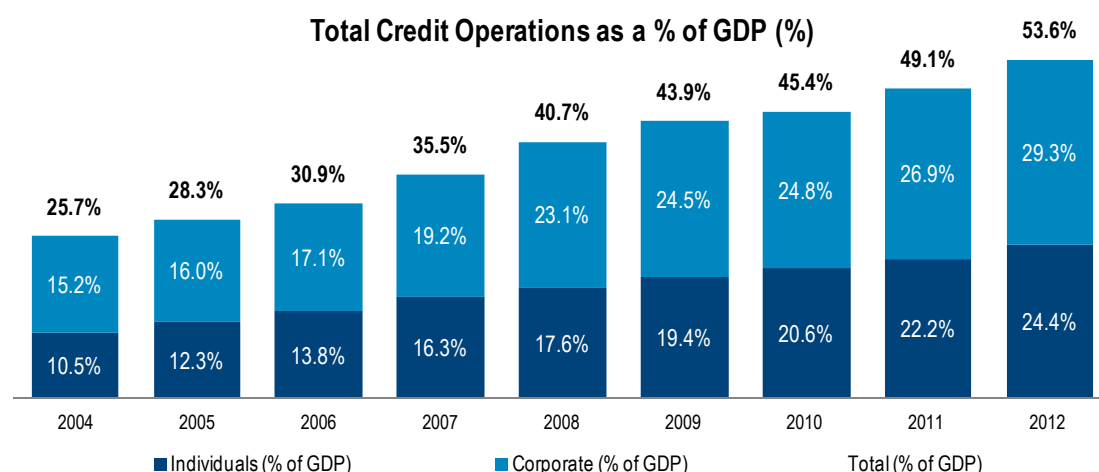
As of December 31, 2012, according to the Central Bank, total credit operations reached R\$2,366.8 billion, of which R\$1,291.1 billion were corporate loans and R\$1,075.6 billion were loans to individuals. Between 2004 and 2012, corporate loans and loans to individuals had a CAGR of 20.3% and 23.1%, respectively. As of December 31, 2012, according to Central Bank preliminary data, total credit

operations comprised approximately 53.6% of Brazil's GDP, with loans to individuals representing 24.4% and corporate loans representing 29.3%.

The graphs below reflect the evolution of total credit operations in Brazil and total credit operations as a percentage of Brazil's GDP for the periods indicated:



Source: Central Bank

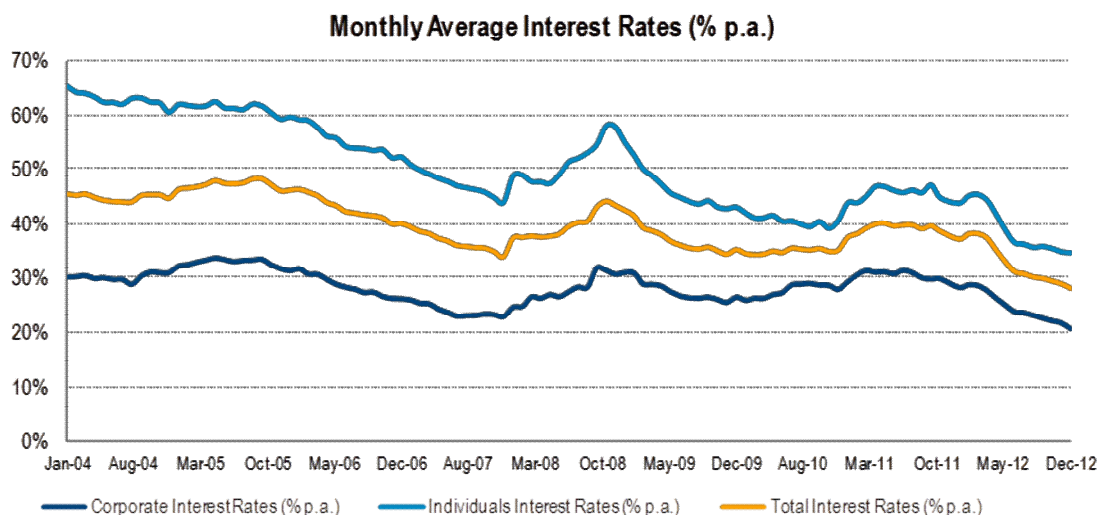


Source: Central Bank

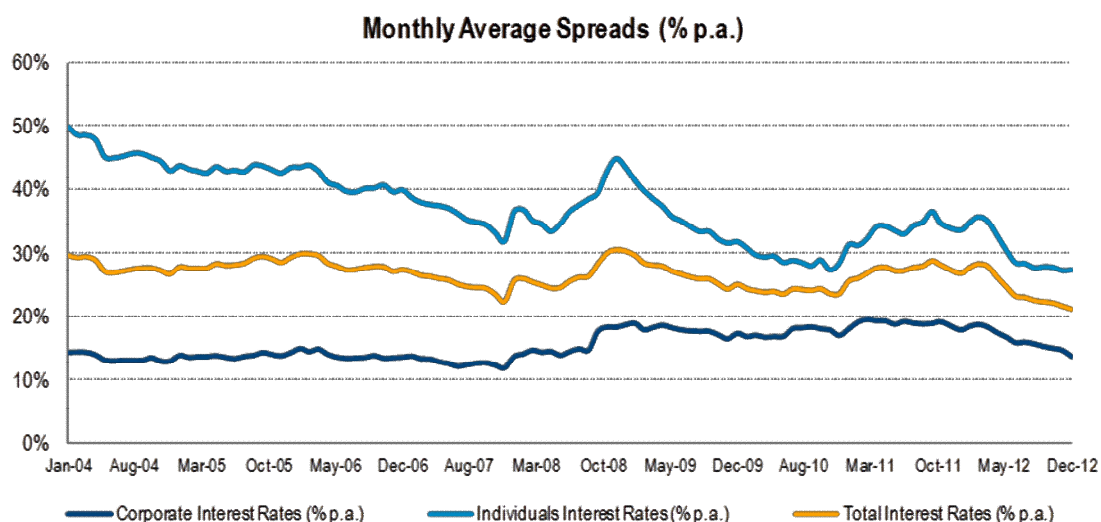
According to Central Bank data, corporate interest rates have remained relatively stable since 2004, while individual interest rates have declined over the course of the same period despite the recent upturn since December 2010. As of December 31, 2012, annual corporate interest rates were approximately 20.6%, and annual individual interest rates were approximately 34.6%, resulting in an average rate of 28.1% for total credit outstanding. Since the 2008 global financial and economic crisis, there has been an increase in corporate loan spreads, while individual loan spreads have decreased significantly since the end of 2010 due to macroeconomic measures implemented in 2009 to strengthen economic growth. In 2011, the prospect of high inflation raised concerns about consumption and credit availability, which led the Brazilian government to impose certain barriers, limiting the credit extended to individuals (including, higher compulsory requirements for banks for payroll loans and vehicle financing of longer terms, among others), which, in turn, impacted their spreads. However, recent measures taken by state-owned banks in

order to reduce spreads lowered interest rates and spreads as shown in the graphs below. The largest impact was on individual loans, which interest rates decreased 8.0% from December 2011 to December 2012, resulting in spreads similar to December 2010 levels. During the same period, interest rates for corporate loans decreased 5.6%.

The graphs below illustrate the monthly average interest rates and the monthly average spreads for the periods indicated:



Source: Central Bank

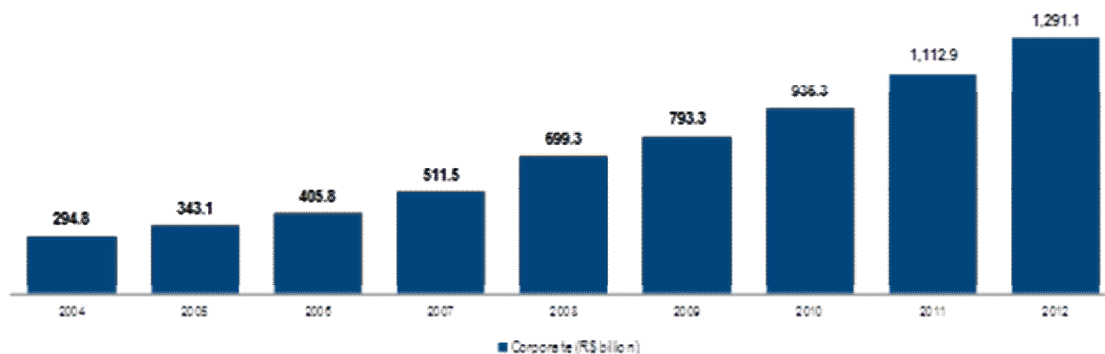


Source: Central Bank

Corporate Lending

Our corporate lending operations are carried out mainly in Brazil. The legacy of high inflation and the lack of availability of long-term credit for Brazilian companies have resulted in relatively low levels of corporate leverage. However, according to the Central Bank, the volume of corporate credit (including regulated funds) has increased significantly in recent years, from R\$699.3 billion in December 2008 to R\$1,291.1 billion in December 2012, representing a CAGR of 16.6% between such dates.

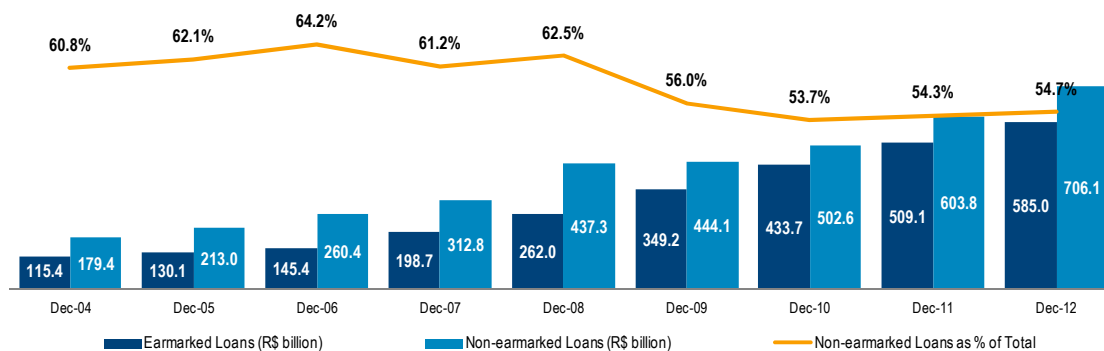
The graph below reflects the evolution of corporate loans in Brazil for the periods indicated:



Source: Central Bank

The Brazilian government and BNDES maintain a significant role with respect to the Brazilian financial system. As of December 31, 2012, the Brazilian financial system had a total of R\$968.2 billion of earmarked lending, comprising 40.9% of total lending. Earmarked lending refers to BNDES lending and lending required by the Brazilian government to designated sectors of the economy, including agriculture and housing. Corporate loans comprise the majority of earmarked loans, representing 60.4% of total earmarked lending as of December 31, 2012. However, due to the strong growth of credit in Brazil led by profitable, scalable and healthy financial institutions, the percentage of earmarked lending relative to total lending has stabilized in recent years, mainly in individual loans.

The graph below reflects the evolution of corporate loans in Brazil divided between earmarked and non-earmarked sources for the periods indicated:



Source: Central Bank

There are many credit products available to corporations in Brazil. We believe the key credit products available to corporations are revolving credit lines, working capital loans, “compror” and “vendor” loans and note discounting, each of which is described below.

Revolving credit line. A revolving credit line is a short-term revolving line of credit available to companies, which provides immediate liquidity. In general, the interest rate 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.

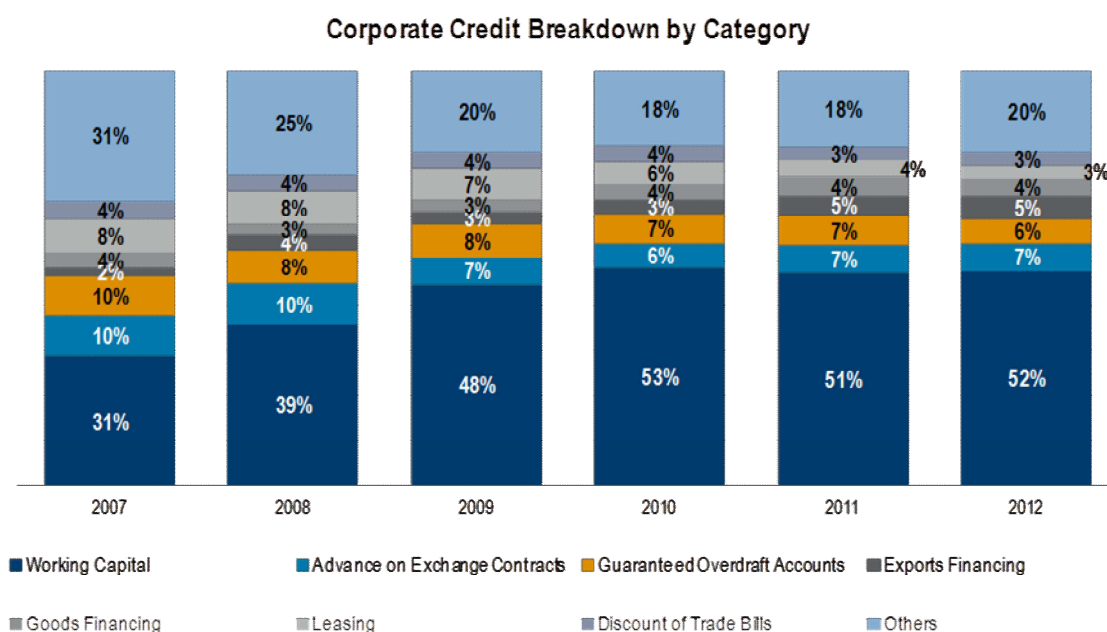
Working capital loan. Working capital loans consist of advances of funds to meet borrowers' working capital needs. In general, the repayment period is 180 days from the date of disbursement of the working capital loan.

Compror loan. The compror loan, or a payables financing loan, provides a borrower financing for the acquisition of a product or service. This loan allows a buyer to extend the repayment period of a purchase without involving the seller because the buyer is the obligor of the loan.

Vendor loan. A vendor loan, or a receivables financing loan, allows a company to 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 sales commissions is smaller.

Note discounting. In a note discounting transaction, a financial institution will provide advances on amounts relating to certain instruments, including trade acceptance bills, promissory notes, credit card sale receipts or postdated checks aimed at anticipating the cash flow of the borrower. The borrower guarantees the non-payment of the notes.

The graph set forth below reflects the breakdown of credit products to corporations in Brazil for the periods indicated:



Source: Central Bank

Lending to Individuals - Commercial Banking

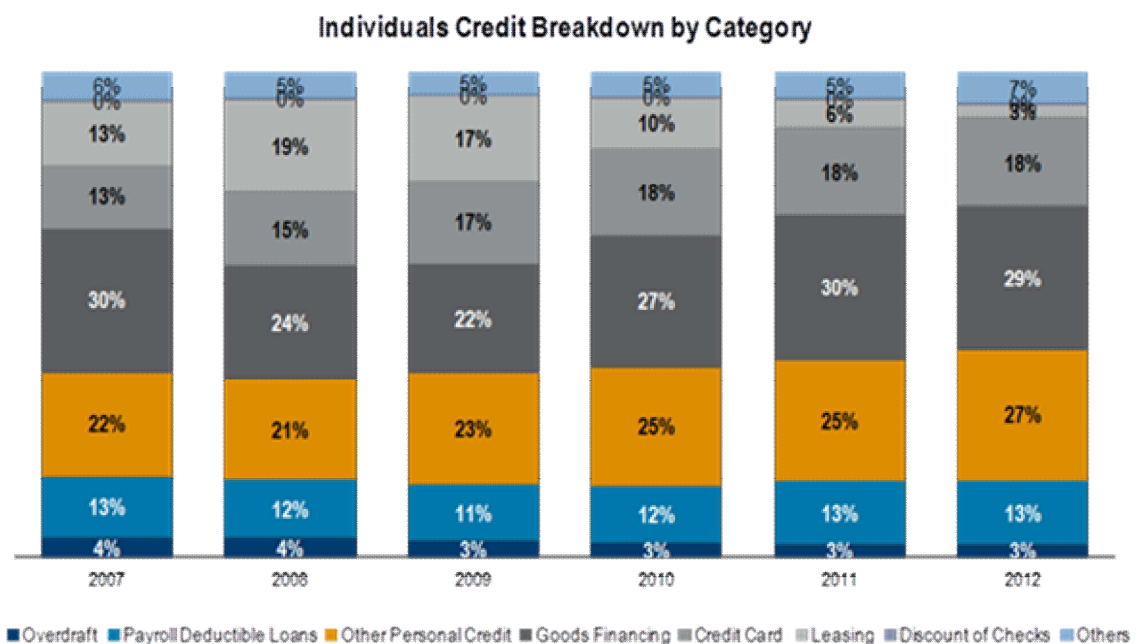
In Brazil, financing for individuals has significantly grown in recent years, mainly due to greater economic stability, higher economic growth rates and improvements in income distribution and poverty levels.

According to the Central Bank, the balance of total consumer credit increased, on average, by a CAGR of 23.1% between December 31, 2004 and December 31, 2012, reaching R\$1,075.6 billion as of December 31, 2012, or 45.4% of all credit in Brazil.

The Brazilian government and BNDES have played a significant role with respect to financing to individuals in Brazil, mainly through extending credit to small agribusiness producers and providing

financing for housing. As of December 31, 2012, credit extended to individuals totaled R\$1,075.6 billion, of which R\$383.1 billion was composed of earmarked lending, or 35.6% of the total. However, as the Brazilian banking system continues to develop and financial institutions seek to diversify their portfolio of products, the share of earmarked lending is expected to decrease, which is consistent with recent trends.

The key credit products used by individuals are personal loans, vehicle financing, payroll deductible loans, credit card financing and overdraft facilities. The graph set forth below reflects the breakdown of credit extended to individuals in Brazil for the periods indicated:



Source: Central Bank

Personal Loans

Personal loans bear relatively high interest rates, which are intended to off-set relatively high rates of default. This type of loan is frequently used by consumers who have limited credit availability. Borrowers are not required to provide collateral and there are no specifications on the way in which the proceeds must be used. Major retail banks offer personal loans to their customer base through their network of branches, while the small- and medium-size banks, focused on a certain niche, operate through small offices in Brazil's major cities.

Vehicle Financing

The vehicle financing market is primarily dominated by large retail banks, which have gradually replaced the lending role formerly held by institutions affiliated with automakers. Interest rates for vehicle financing are extremely competitive. The smaller institutions that serve this market focus, in most cases, on the used vehicle segment. Default rates are relatively low and the loans are secured by the financed vehicle, which can be repossessed and sold if the borrower defaults.

Payroll Deductible Loans

Payroll deduction loans increased with the demand for alternative sources of credit. Historically, traditional credit facilities have been expensive for consumers for different reasons, including competition

within the banking industry, the legal and institutional structure of the industry and the nature of underlying credit risks.

Payroll deduction loans have been the fastest growing form of consumer financing over the last few years. Payroll deduction loans are made available to a segment of the Brazilian population without access to a regular bank account or traditional banking distribution channels.

Credit Card Financing

Credit card lending is dominated by large retail banks that operate under their own banners in association with international banners like MasterCard and Visa. Interest rates on credit card financing are generally high, mainly due to high default rates for this type of credit.

Overdraft Facilities

Overdraft protection, or the guaranteed personal check, is usually offered by institutions that accept demand deposits. In general, these are the major retail banks, including large foreign conglomerates. We believe that consumers use this line of credit as a last resort, because interest rates are relatively higher than other forms of credit afforded to individuals.

Installment payment credit offered by retail store chains involves the financing of consumer goods, including durable goods such as building materials and home appliances, as well as non-durable goods such as apparel and groceries. The installment credit market is the most fragmented of all segments of consumer credit in Brazil. Major retail chains have traditionally financed their customers' purchases, but recently some agreements have been entered into between retail chains and banks that are interested in taking over those credit operations.

Insurance

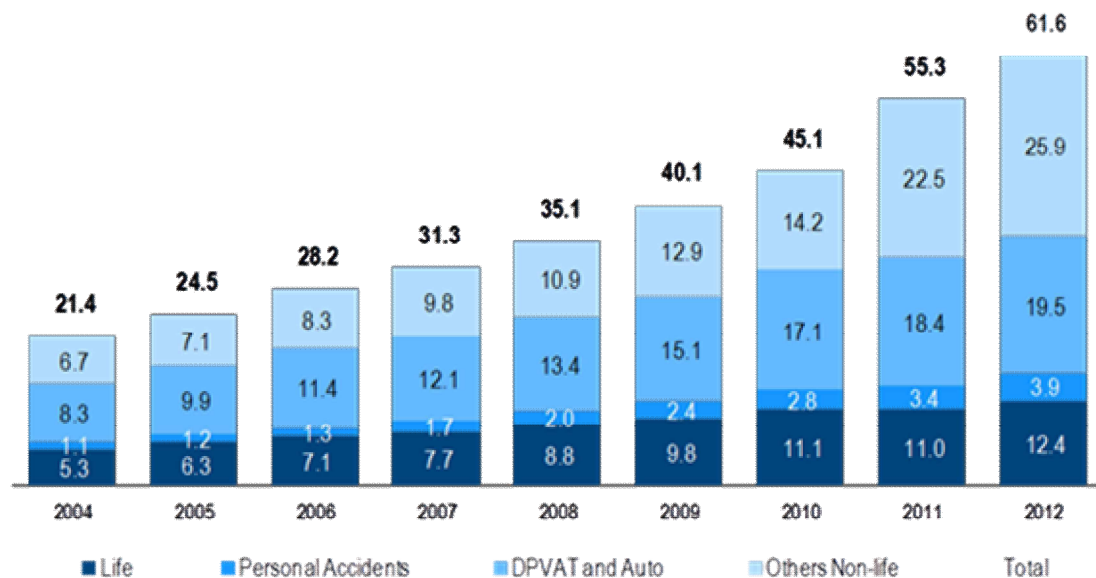
Through Banco PanAmericano, we also offer insurance products. Over the past several years, Latin America has experienced strong insurance premium growth, mostly due to better economic conditions, lower inflation, improvements in insurance supervision, greater product innovation and the use of multiple distribution channels, in particular the successful leveraging of bancassurance, referring to the selling of insurance through a bank's established distribution channels.

Despite strong growth, Latin America remains under-penetrated as measured by premiums as a percentage of GDP and premiums per capita, with insurance penetration rates for Latin America and the Caribbean at 2.6%, below the world average of 6.9%, according to Swiss Re.

The Brazilian insurance market has experienced substantial growth over recent years. During the five-year period ended December 31, 2012, net earned premiums in the Brazilian insurance industry have increased at an annual rate of 15.1% (excluding premiums from health and VGBL plans, a product popular in the Brazilian private pension product), according to the data from SUSEP. During 2012, net earned premiums grew by 11.4% (excluding health and VGBL premiums) compared to 2011, according to SUSEP.

The graphs below show the evolution of net earned premiums in Brazil and the breakdown of net earned premiums, excluding health and VGBL premiums, for the period indicated:

Net Earned Insurance Premiums in Brazil⁽¹⁾⁽²⁾

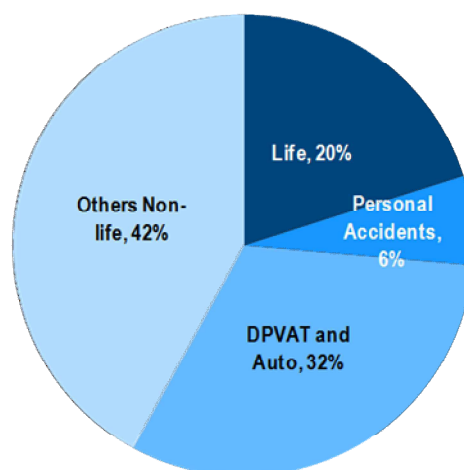


Source: SUSEP

(1) Excludes VGBL and healthcare.

(2) Information presented in R\$ millions.

Breakdown of Net Earned Premiums (December 2012)⁽¹⁾



Source: SUSEP

(1) Excludes VGBL and healthcare.

Although the main driver of growth in the Brazilian insurance industry is generally believed to be the stronger pace of domestic consumption, additional contributing factors include:

- increased macro stability;
- relevant reforms such as the introduction of the Real plan;
- increased purchasing power and volume of credit offered;
- increased employment in the formal sector;
- increased numbers of vehicles; and
- increased penetration of insurance products.

The Brazilian insurance sector consists of life and non-life products. The life segment includes coverage for property and individuals, and the non-life segment mainly includes auto, homeowner and property and casualty insurance, among others.

The Brazilian insurance market can be broadly divided into two groups: (i) independent insurers, such as SulAmérica and Grupo Icatu, and (ii) insurance companies that are associated with Brazil's largest banking institutions, such as Bradesco, Itaú Unibanco and Banco do Brasil. Bancassurance distribution channels are well developed in Brazil, especially within the pension products market.

We believe that consumer demand for personal insurance lines will remain strong in the near future due to changes in spending habits, increased economic activity and the continued expansion of credit supply.

Furthermore, we expect that a strong labor market will lead to a rise real wages will help boost the country to higher purchasing power levels resulting in sustained growth in the insurance industry.

Asset Management

Asset management generally involves the professional management of investments (e.g., equity, debt, derivatives and other securities) by third party managers on behalf of investors to meet their specific investment goals. Investors may be corporations, institutions, governments and individuals, who invest in various funds. Wealth management, as discussed below, is a more specialized and discretionary type of asset management provided to private investors, who are usually high net worth individuals.

Traditional asset management generally involves managing and trading portfolios of equity, fixed income and/or derivative securities. Asset management typically generates management fees as a percentage of the AUM and performance fees depending on the type of fund being managed. The investment objectives of a fund can vary between total return funds, capital appreciation, current income, and replicating the performance of a specific index, among other types.

Alternative asset management utilizes a wide range of investment strategies to achieve returns within certain predefined risk parameters and investment guidelines. In general, these investments tend to have a lower correlation with the general market than do traditional asset management strategies. Examples of these funds include private equity funds, real estate funds, venture capital funds, hedge funds and fund of funds, among other types.

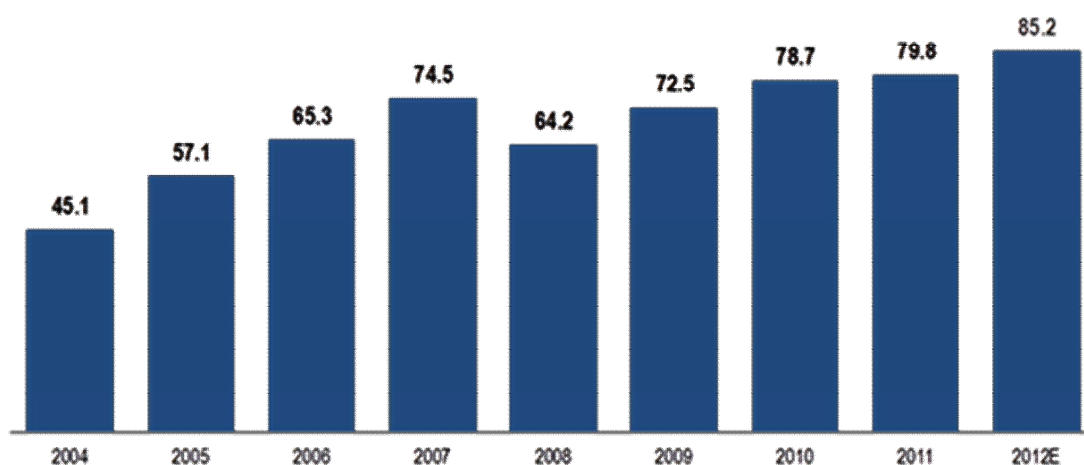
The asset management industry has experienced significant growth both globally and in Brazil since 2000. However, following five consecutive years of growth during which AUM more than doubled, there was a worldwide decline of AUM in 2008, primarily as a result of weakened equity markets, poor investment performances, reduced inflows of new funds and increased investor redemptions. The strengthening of the U.S. dollar during 2008 also exacerbated this decline. Despite the losses incurred on some investments, the global fund management industry was much less affected by the global financial and

economic crisis than the banking sector. Following recovery in the equity markets, global AUM increased in 2009, partially as a result of the depreciation of the U.S. dollar against a number of currencies in 2009.

As equity markets continued to recover and with an inflow of new funds, global AUM continued to grow in 2010. According to the most recent report issued by the International Financial Services, London, there were approximately US\$79.3 trillion of global AUM in 2010, which represents an increase of 9.5%, 23.5% and 6.0%, compared to 2009, 2008 and 2007, respectively. Of this total, pension assets accounted for approximately US\$29.9 trillion, mutual funds accounted for US\$24.7 trillion and insurance funds accounted for US\$24.6 trillion. Together with alternative assets (e.g., sovereign wealth funds, hedge funds, private equity funds and exchange-traded funds) and funds of wealthy individuals, the assets of the global fund management industry totaled approximately US\$117.0 trillion at the end of 2010, which represented an increase of 10% from 2009. The United States continued to be the largest source of AUM in 2010, accounting for nearly a half of traditional AUM, or US\$36.0 trillion, while the United Kingdom was the second largest source of AUM and the largest in Europe with around 8% of the global total of AUM. Japan and France followed as the third and fourth largest source of AUM, with 7.5% and 6.0%, respectively of the global AUM.

Conventional AUM for the global fund management industry increased slightly in 2011 to a record US\$79.8 trillion. The 1.2% increase in global conventional AUM in 2011 represented a slowdown from the strong rate of growth seen in the two previous years, and was largely due to the decline in equity markets in the latter part of the year and sovereign debt crisis in Europe. The recovery in equity markets since then has contributed to the increase in global conventional AUM in 2012. Emerging economies have seen stronger growth since the start of the economic slowdown, a trend which is likely to persist in the coming years. On the whole, the fund management industry has recovered relatively quickly from the sharp fall in global AUM at the outset of the credit crisis, with most of the recovery coming from market performance rather than new inflows. The longer term effects of the economic slowdown include more cautious investment strategies, more diversification across asset classes and geographical regions, and more independence in ownership terms from banks and insurance companies. As of December 31, 2012, AUM for the global fund management industry was estimated to reach approximately \$85.2 trillion, according to International Financial Services London.

The graph below shows the evolution of global AUM for the periods indicated:



Source: International Financial Services London

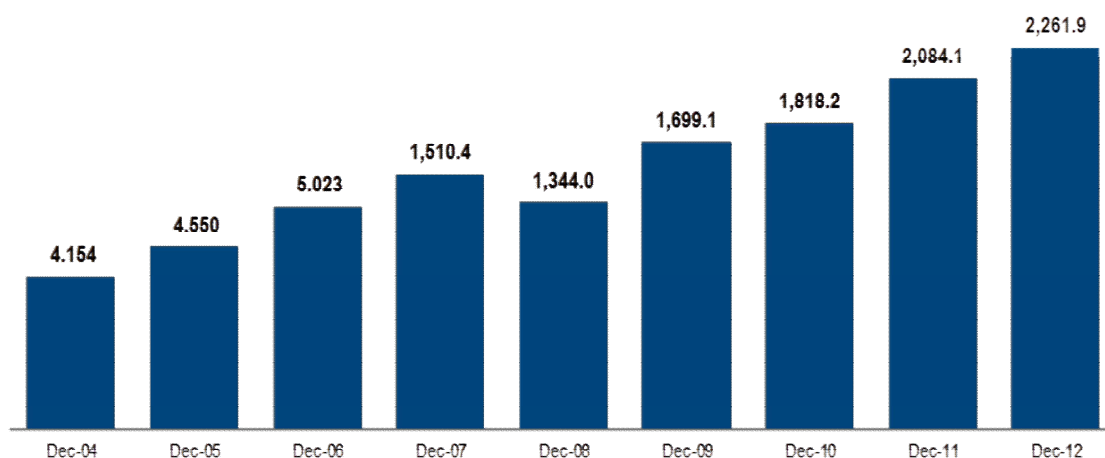
The relatively stable economic conditions in Brazil coupled with an aging population have encouraged investors to increase savings. Since 2002, the investment fund industry in Brazil has undergone material changes, in part as a result of regulations promulgated by the CVM. These regulations encouraged market participants to adopt better corporate governance practices and increase transparency in the

management of investment funds. Other growth drivers in the asset management industry have been the expansion of the insurance and private pension markets, which benefited from the growth of private pension plans, improved credit ratings of Brazilian issuers and easier access to financial products offered over the internet.

According to ANBIMA, as of December 31, 2012, the asset management industry in Brazil included approximately 7,540 investment funds and over R\$2,261.9 billion in AUM.

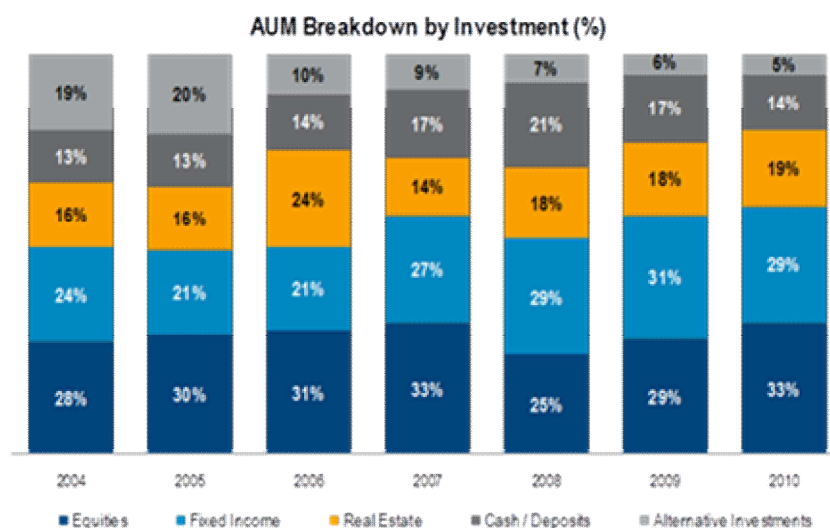
The graph below reflects AUM in Brazilian investment funds as of the periods indicated:

AUM in Brazilian Investment Funds (R\$ billions)



Source: Central Bank

The graph below reflects AUM breakdown by investment type in Brazil as of December 31 of the years indicated:



Source: World Wealth Report

Asset Management Products

In addition to the favorable political and economic conditions in Brazil, the asset management industry has benefited from the increasing availability of new products, such as diversified funds (*fundos multi-mercado*), a lessening risk aversion among domestic and foreign investors and the accelerated growth of private pension funds.

The principal funds in the Brazilian asset management industry include, fixed income funds, money market funds, equity funds, multi-asset funds and structured funds.

Fixed Income Funds. Fixed income funds invest solely in fixed income investments, such as bonds or certificates of deposit. These funds limit the amount of risk an investor takes on, although it could mean a lesser return that would be possible in a riskier fund.

Money Market. The money market is a component of the financial markets for assets based on short-term borrowing and lending with original maturities of one year or shorter periods. In Brazil, the money market is mainly composed of CDI transactions, which are interbank repurchase agreements with one-day maturity and based on highly liquid Brazilian government bonds.

Equity Funds. Equity funds are mutual funds that invests mainly in stocks, that are managed either actively or passively (index fund). Actively managed funds seek to obtain returns by focusing on undervalued stocks and selling them when their prices are higher, including in recession scenarios. Passively managed funds seek to obtain gains by making investments that follow general market positions, particularly equity indexes (e.g., S&P 500).

Multi-asset Funds. Multi-asset funds invest in different types of assets, including stocks, bonds, cash and real property. These types of funds increase the diversification of an overall portfolio by distributing investments throughout several classes. While this investment strategy reduces risk (volatility) compared to holding one class of assets, it also may limit potential returns.

Structured Funds. Structured funds combine both equity and fixed-income products to provide investors with a degree of both capital protection and capital appreciation. These funds use fixed-income securities to give the fund capital protection through principal repayment in addition to interest payments. These funds use options, futures and other derivatives, which are often based on market indexes, to provide exposure to capital appreciation.

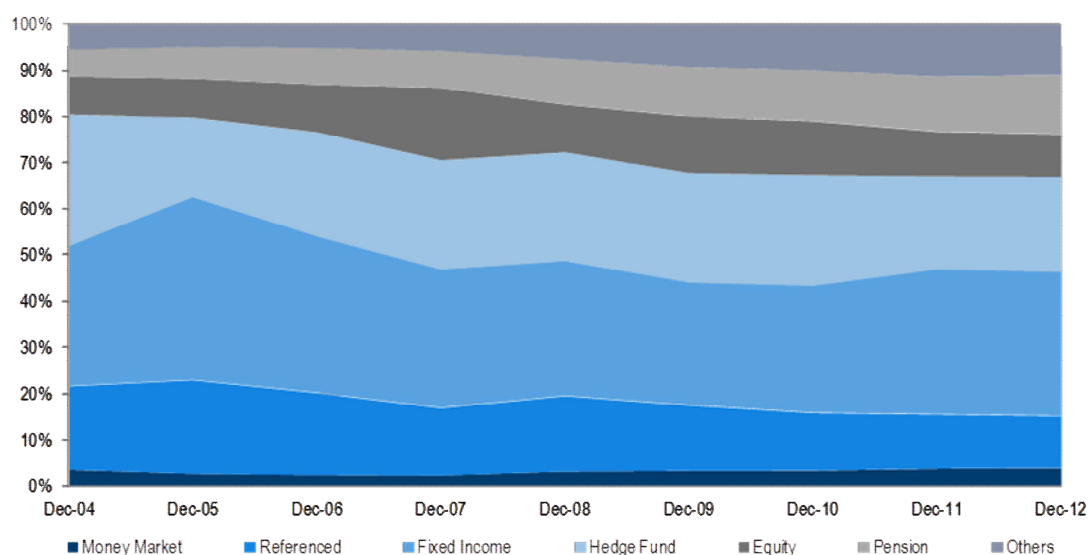
Referenced Funds. Reference funds aim to have at least 95% of their portfolio composed of securities that directly or indirectly follow the variations of the CDI or SELIC rates. Although the securities portfolio of referenced funds is comprised of variable-rate securities, oscillations can occur due to the risk perception of these securities.

Pension Funds. Pension funds are divided into (i) fixed-income pension funds, (ii) balanced pension funds, (iii) multi-market pension funds, (iv) target-date pension funds, and (v) share pension funds. Fixed-income pension funds seek returns through investments in fixed-income assets, using strategies to generate returns on interest rates and price indexes linked to the Brazilian market. Balanced pension funds seek long-term returns by investing in various asset classes, including fixed-income, and equities. These funds use a diversified investment strategy for acquiring assets, and generally invest a portion of their portfolio in variable-income assets. Multi-market pension funds seek long-term returns by investing in various asset classes. These funds do not disclose their asset mix (i.e., percentage of each asset class) and may be measured against other performance indicators that reflect only one asset class. Target-date pension funds seek returns by a target-date by investing in various asset classes and using a periodic rebalancing strategy. These funds seek to reduce risk exposure in accordance with the time remaining until the respective target-date. These funds cannot be measured against performance indicators that reflect only one asset class. Share pension funds are required to have at least 67% of its portfolio in cash equities, subscription warrants, share deposit certificates, quotas of stock funds, quotas of stock index funds or Brazilian Depositary Receipts under Level II or Level III.

Hedge Funds. A hedge fund is an investment fund that typically undertakes a wider range of investment and asset trading than other funds, but which is only open for investment from particular types of investors specified by regulators. These investors are typically institutions, such as pension funds, university endowments and foundations, or HNWI. Hedge funds invest in a diverse range of assets, but they most commonly trade liquid securities on public markets. These funds usually employ a wide variety of investment strategies, and make use of techniques such as short selling and leverage.

Notwithstanding the significant growth and size of Brazil's equity capital market, a significant portion of total AUM remains concentrated in fixed income and money market funds, due in part to the legacy of high interest rates in Brazil. As of December 31, 2012, the total amount invested in fixed income and money market funds together represented approximately 46% of total AUM, while hedge funds, equity funds and pension funds represented approximately 21%, 9% and 13%, respectively. The remaining 7% of total AUM represents currency and other types of funds.

The graph and chart below illustrate the volume (in R\$ billions) and percentage of each type of fund which comprise the Brazilian asset management industry for the periods indicated:



Source: ANBIMA

Type of Fund	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Money Market	33	30	33	36	44	58	63	81	91
Referenced	163	218	235	220	219	240	225	243	253
Fixed Income	274	427	446	453	392	451	500	654	704
Hedge Fund	258	186	299	359	318	406	440	424	471
Equity	74	90	135	234	137	205	209	198	204
Pension	52	74	105	121	133	180	200	248	291
Others	50	53	68	88	101	159	181	236	247
Total	904	1.078	1.320	1.510	1.344	1.699	1.818	2.084	2.262

Source: ANBIMA

Private Equity

The investment period of a private equity fund is usually mid- to long-term. Returns on private equity investments are generated through one, or a combination of, the following three factors: (i) accumulation of cash flows from operations; (ii) improvement of earnings over the life of the investment;

and (iii) sale of a business for higher multiple of earnings than the original purchase price. Exit strategies used by private equity funds include initial public offerings and selling a business to new investors.

The private equity industry in Brazil has expanded in recent years, partially leveraging from an earlier period of private growth from 1994 to 2000.

In recent years, private equity firms have been tapping capital markets in Brazil extensively in order to fund portfolio companies' growth and to recycle funds' portfolios. We believe the private equity industry in Brazil will continue to grow given the number of firms currently interested in investing or building investment platforms in Brazil.

We believe that the current favorable economic condition is the main driver behind the growth of the Brazilian private equity industry. The emerging middle class, eager to benefit from ever increasing disposable income and credit availability, is boosting internal consumption across a broad range of products, from food to government-subsidized housing, making Brazil one of the leading consumer markets worldwide. The Brazilian government is stimulating this growth, mainly by means of large investments in infrastructure, including the World Cup in 2014 and the Olympic Games in 2016. Other sectors such as commodities and energy will continue to play an important role in the continued growth of Brazilian GDP, backed by solid internal and external consumer markets. Growth, consolidation and governance, this is the Brazilian landscape of the industry, which, in the country work basically in all equity deals.

According to a report published by the 2011 Latin America Venture Capital Association, or LAVCA, Latin American private equity investment activity reached US\$6,504 million in 2011, representing a decrease of 9.7% over 2010. Brazil has become the major market for private equity in Latin America. Within Latin America, Brazil was home to the largest percentage of investments in 2010, accounting for 64% of investments by value and 50% of investments by number of deals. In 2011, Latin American fundraising activity increased 27% compared to 2010, reaching US\$10,300 million, of which Brazil captured US\$8.1 billion, or approximately 78.6% of the total funds raised, illustrating the strength of Brazil's experienced asset managers and the desire of global investors to invest in Brazil.

As a result of Brazil's prominence as a major market for private equity investment, many international funds that previously only invested opportunistically in Brazil are now establishing local offices and raising local funds. This growth was a result of the positive performance of Brazilian equity capital markets, which allowed private equity firms to recycle their portfolios and fund growth. In addition, Brazil's growing middle class coupled with a positive outlook for Brazil's exports created opportunities for further investments in consumer-related and infrastructure sectors. Furthermore, oil services and shipbuilding industries should attract private equity firms for several years to come, in light of the increasingly positive outlook of pre-salt and offshore exploration.

According to a recent survey published by the Emerging Markets Private Equity Association, or EMPEA, and Collier Capital, Brazil is the most attractive emerging market for private equity investments in 2012.

In addition, fundraising has increased for private equity investments in other emerging markets as well. The table below shows, for the periods indicated, fundraising activity in selected economies:

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Brazil	230	480	158	2,098	2,510	3,589	401	1,078	7,079	2,617
China	213	311	2,243	4,279	3,890	14,461	6,617	7,509	16,616	10,825
India	236	706	2,741	2,884	4,569	7,710	3,999	3,268	2,737	2,084
Russia/CIS	175	200	1,254	222	1,790	880	455	75	135	357
South Africa	741	340	348	1,190	546	218	N/A	423	n.a.	n.a.

Source: *Emerging Markets Private Equity Association, IMF*

In addition to this increase in fundraising, private equity investments have increased overtime and, although adversely impacted by recent market developments, activity in Brazil has remained at high levels over the last years, as demonstrated in the table below.

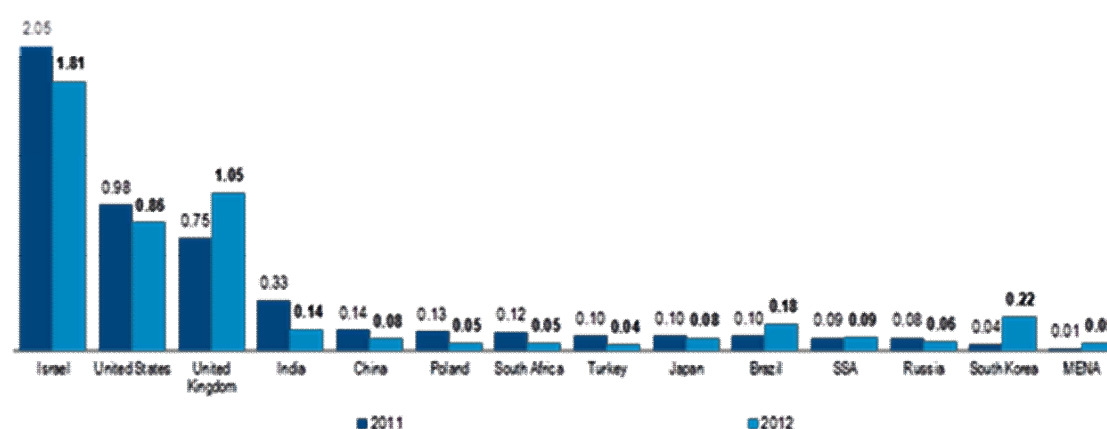
EM PE Investment Totals by Select Markets, 2003–1H 2012 (US\$ millions)

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Brazil	321	120	474	1,342	5,285	3,020	989	4,604	2,461	4,384
China	1,667	1,389	2,991	8,200	9,458	8,994	6,288	9,190	10,529	7,104
India	456	1,272	1,377	5,687	9,905	7,483	4,011	6,222	6,172	2,676
Russia/CIS	113	240	240	402	805	2,647	217	1,516	1,579	1,239

Source: Emerging Markets Private Equity Association, IMF

Although Brazil has experienced a large inflow of capital into private equity investments in recent years, the Brazilian market remains under penetrated compared to other BRIC countries, and especially compared to the United States. According to EMPEA, private equity investment as a percentage of GDP in Brazil was only 0.18% in 2012, while the United States and United Kingdom presented a 0.86% and 1.05% penetration in 2012, respectively.

The graph below shows, as of December 31, 2011 and 2012 the percentage of GDP that private equity investments represents for each of the countries listed:



Source: Emerging Markets Private Equity Association, IMF

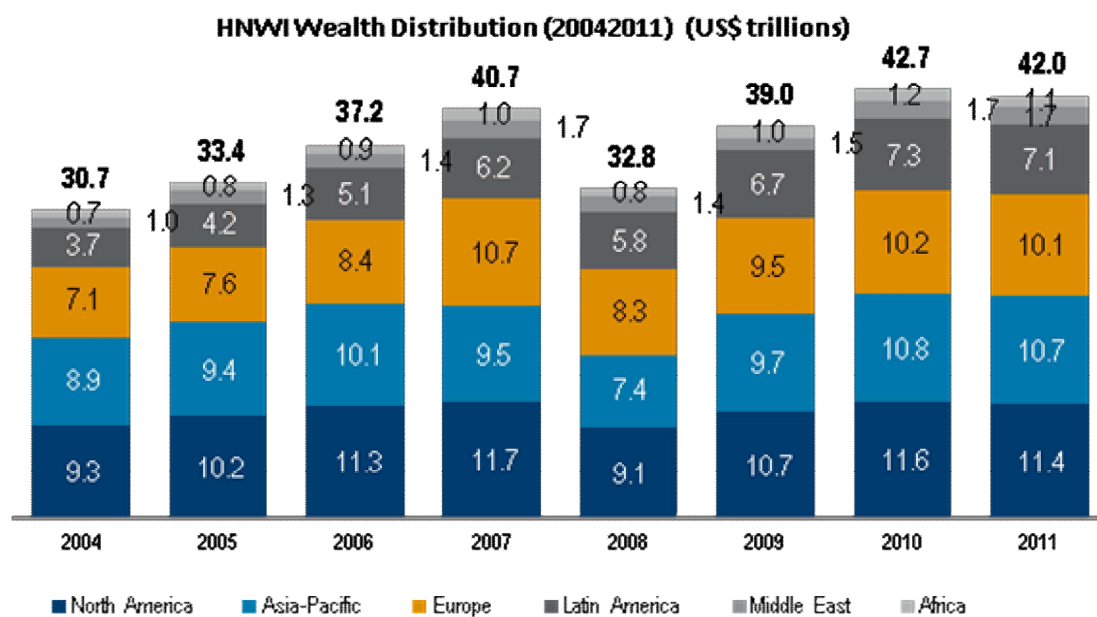
Wealth Management

The wealth management industry typically provides services to HNWI, including highly customized and sophisticated investment management services, financial planning consultancy, trust advisory services and other advisory services in connection with estate planning, business succession and small-scale M&A transactions, among others.

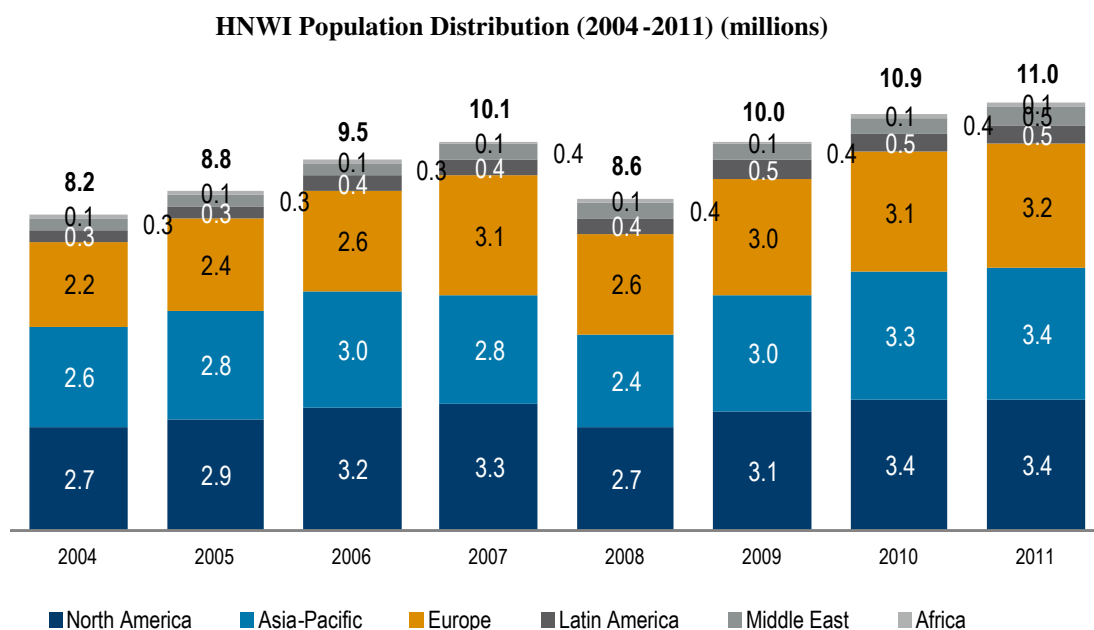
While the HNWI population increased slightly, overall investable wealth has declined in recent years. The overall financial global wealth of HNWI declined across all regions in 2011, with the exception of the Middle East, according to the World Wealth Report 2012. However, despite the 1.7% decline in investable wealth to US\$42.0 trillion, the global HNWI population grew marginally by 0.8% to 11 million in 2011.

In 2011, Asia-Pacific became the region with the largest number of HNWI, while North America retained the most HNWI wealth. The number of HNWI in Asia-Pacific expanded 1.6% to 3.37 million in 2011, making Asia-Pacific the largest HNWI region for the first time. North America remained the largest region for HNWI wealth at US\$11.4 trillion. U.S, Japan and Germany, retained 53.3% of the total share of HNWI, slightly up from 53.1% in 2010. Of the top twelve countries by population, Brazil saw the greatest percentage rise (6.2%) in the number of HNWI in 2011.

The following graphs show the amount of wealth (in R\$ trillions) and the HNWI across various regions around the world as of December 31 for the years indicated:



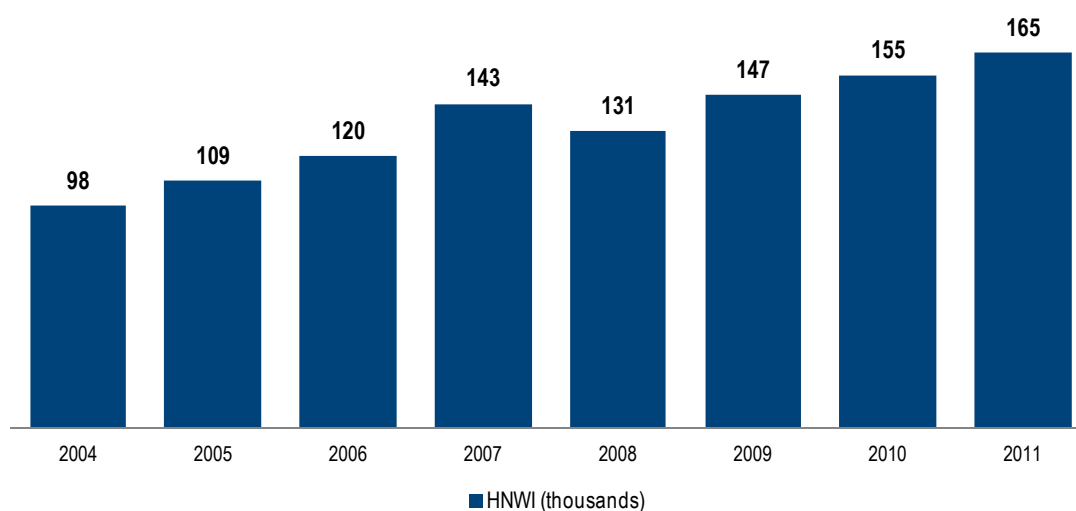
Source: World Wealth Report



Source: World Wealth Report

According to the World Wealth Report, Brazil is one of the largest economies in terms of HNWI, with approximately 165,000 individuals. From 2004 through 2011, Brazil had a compounded annual growth rate of 7.7% in terms of HNWI for such period.

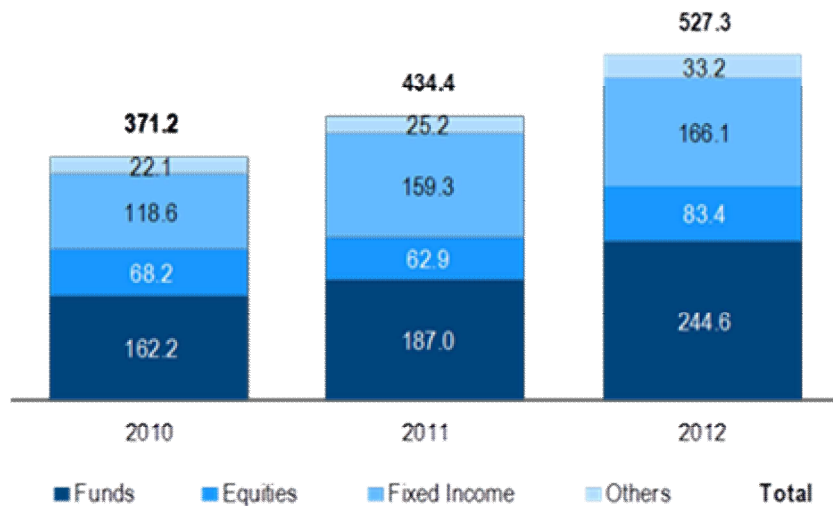
The graph below illustrates the number of HNWI in Brazil from 2004 through 2011:



Source: World Wealth Report

According to data from ANBIMA, as of December 31, 2012, the Brazilian private banking segment had a total of R\$527.3 billion in AUM. Of this total, 31.5% is invested in fixed income products, 46.4% in investment funds (open-ended, closed-ended funds and structured funds), 15.8% in equities and 6.3% in other assets.

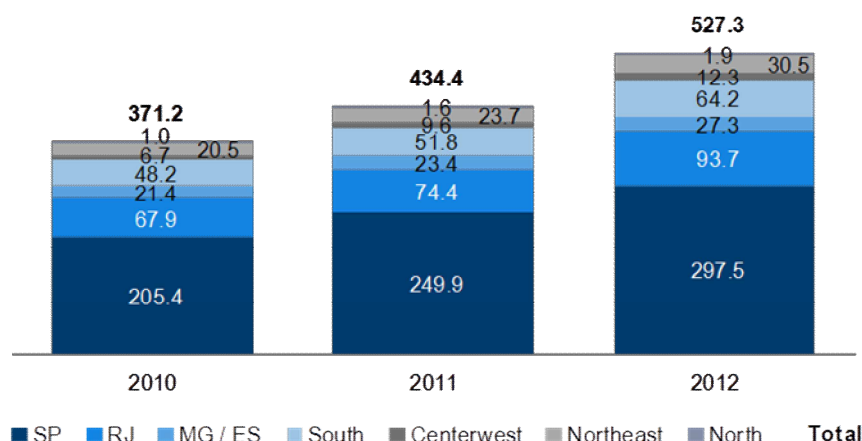
The graph below illustrates the breakdown of wealth (in R\$ billions) in Brazil by investment segments:



Source: ANBIMA

The majority of Brazil's high net worth individuals are located in two states, São Paulo and Rio de Janeiro. As of December 31, 2012, São Paulo and Rio de Janeiro accounted for 56.4% and 17.8%, respectively, of all of Brazil's high net worth individuals. With the expected growth of the Brazilian economy through the diversification of businesses and geographical regions, this concentration may decrease in the future, thus representing an opportunity for the wealth management industry to explore different markets.

The graph below illustrates the breakdown of wealth (in R\$ billions) in Brazil by geographical regions:



Source: ANBIMA

REGULATORY OVERVIEW

The Brazilian Financial System and Banking Regulation

Regulatory Framework

The basic institutional framework of the Brazilian financial system was established in 1964 by the Banking Reform Law. The Banking Reform Law created the CMN, which is responsible for examining monetary and foreign currency policies pertaining to economic and social development, as well as overseeing the operation of the financial system.

Principal Regulatory Agencies

The Brazilian national financial system (*Sistema Financeiro Nacional*) is composed, among others, of the following regulatory and inspection bodies:

- the CMN;
- the Central Bank;
- the CVM;
- the Brazilian Council of Private Insurance (*Conselho Nacional de Seguros Privados*);
- the SUSEP; and
- the National Superintendency of Private Pension (*Superintendência Nacional de Previdência Complementar*).

Below is a summary of the main functions and powers of the most relevant of these regulatory bodies.

The CMN

The CMN is the chief authority for monetary and financial policy in Brazil, responsible for the overall supervision of Brazilian budgetary, credit, fiscal, monetary and public debt policies.

The members of the board of CMN are the Minister of Finance (chairman), the Minister of Planning, Budget and Management and the President of the Central Bank. The CMN has the authority to regulate the credit operations of Brazilian financial institutions and Brazilian currency, to supervise Brazil's foreign exchange and gold reserves, to establish Brazilian saving and investment policies and to regulate the Brazilian capital markets with the overarching purpose of promoting economic and social development of Brazil. The CMN also oversees the activities of the Central Bank and the CVM. Specifically, the main responsibilities of the CMN are the following:

- coordinating monetary, credit, budget, tax and public debt policies;
- establishing foreign exchange and interest rate policy;
- protecting the liquidity and solvency of financial institutions;
- overseeing activities related to the stock exchange markets;
- regulating the structure 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 monitoring and regulating 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.

Specifically, the main responsibilities of the Central Bank are the following:

- managing the day-to-day control over foreign capital inflows and outflows (risk capital and loans in any form);
- setting forth the administrative rules and regulations for registering investments;
- monitoring foreign currency remittances;
- controlling the repatriation of funds (in the event of a serious deficit in Brazil's balance of payments, the Central Bank may limit remittances of profit and prohibit remittances as capital for a limited period of time);
- receiving compulsory withholdings and voluntary demand deposits of financial institutions;
- executing rediscount transactions and loans to banking financial institutions and other institutions authorized to operate by the Central Bank;
- acting as a depositary 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 policies established by the CMN and regulates, develops, controls and inspects the securities market. The CVM is headquartered in Rio de Janeiro and has jurisdiction in all Brazilian territory. The CVM is an independent agency linked to the Ministry of Finance. It has independent administrative authority and legal standing. The main responsibilities of the CVM are the following:

- implementing and regulating the securities and exchange policies established by the CMN; and
- controlling and overseeing the Brazilian securities market by: approving, suspending and canceling the registration of public companies; authorizing 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, annual and quarterly reporting by public companies; and imposing penalties.

Since 2001, the CVM has had jurisdiction to regulate and oversee the derivatives' market and financial and investment funds that were originally regulated and supervised by the Central Bank. Pursuant

to Law No. 10,198, of February 14, 2001, as amended, and Law No. 10,303, of October 31, 2001, the regulation and supervision of both financial mutual funds and variable income funds and of transactions involving derivatives were transferred to the CVM. On July 5, 2002, the CVM and the Central Bank entered into a memorandum of understanding under which they agreed on the general terms and conditions for the transfer of such duties to the CVM. In accordance with Law No. 6,385, of December 7, 1976, (also known as 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). The individuals appointed to the CVM must be of good standing and recognized as experts in the field 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 rendered 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 comprised of four members appointed by public authorities and four members from the private sector.

Banking Regulation

Principal Limitations and Restrictions on Financial Institutions

The activities of financial institutions are subject to limitations and restrictions. In general, such limitations and restrictions relate to the offering of credit, risk concentration, investments, conditional operations, foreign currency loans and negotiations, administration of third party funds and microcredit finance.

The principal restrictions on banking activities established by the Banking Reform Law and further applicable regulations 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 must be expressly authorized to operate in Brazil by Presidential decree;
- a financial, banking or credit institution may not invest in the equity of any other company, except where such investment is approved by the Central Bank based on certain standards established by the CMN. However, investments are permitted without restrictions in such institutions through the investment banking unit of a multiple-service bank or a subsidiary of an investment bank;
- a financial, banking or credit institution may not own real estate other than the property it occupies, and is subject to certain limitations imposed by the CMN. If a financial, banking or credit institution takes possession of 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 an appropriate deed evidencing such debt;
- a financial, banking or credit institution may not lend more than 25.0% of its reference shareholders' equity (*Patrimônio de Referência*), or PR, 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 their immediate and extended families) or to any company in which such executive officers and directors (including their immediate and extended families) hold more than 10.0% of the share capital;
- financial institutions are prohibited from carrying out repurchase transactions (*operações compromissadas*) in excess of an amount corresponding to 30 times their PR;
- 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 must be compatible with the rules governing share capital and minimum capitalization requirements 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 PR; and
- financial institutions may not expose themselves to gold, assets or liabilities referenced in currency exchange variations in excess of 30.0% of their PR.

Capital Adequacy and Leverage

The Central Bank supervises the Brazilian banking industry in accordance with the guidelines of the Basel Committee and other applicable regulations, including the Basel II and Basel III Accords, which are currently being implemented. The banks provide the Central Bank with the necessary information for it to perform its supervisory functions, which include supervising the movements in the solvency or capital adequacy of banks.

The main principle of the Basel II Accord, as implemented in Brazil, is that a bank's own resources must cover its principal risks, including credit risk, market risk and operational risk. The requirements imposed by the Central Bank differ from the Basel II Accord in a few aspects. Among these differences, the Central Bank currently:

- imposes a minimum capital requirement of 11.0% instead of the 8.0% imposed by the Basel II Accord;
- assigns different risk weighting and credit conversion factors to some assets, including a risk weighting of 300.0% on deferred tax assets other than temporary differences;
- requires calculation and report on the minimum capital 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;
- 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.

A bank's capital base composition, for supervisory purposes, is defined in two tiers according to Brazilian rules. Such requirement is called PR:

- Tier I: Corresponds to the sum of amounts corresponding to net assets, the balance of profit

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

- Tier II: Corresponds to the sum of amounts corresponding to re-evaluation reserves, contingency reserves and special profit reserves relating to non-distributed mandatory dividends added to amounts corresponding to: (i) hybrid capital and debt contracts (as defined in CMN Resolution No. 3,444), subordinated debt contracts, preferential shares issued with a redemption clause and preferential shares with the accumulation of dividends issued by financial institutions; and (ii) the balance of unearned gains and losses resulting from the adjustment in the market value of securities classified as “securities available for sale” and derivative financial instruments used for cash flow hedge.

The total amount of Tier II capital cannot exceed the total amount of Tier I capital, and Brazilian regulation imposes limits on Tier II capital, as follows:

- subordinated debt in Tier II capital, plus the amount of preferred redeemable stock originally maturing in less than ten 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;
- the total amount of hybrid capital and debt instruments authorized by the Central Bank to be included in Tier I capital is limited to 15.0% of the total amount of 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 capital: (i) amounts paid into investment funds’ capital, proportionate to the interest on each fund’s portfolio; (ii) acquisition or indirect interest on financial conglomerates, through any non-financial affiliated entity; and (iii) 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.

In addition to minimum capital and shareholders’ equity requirements, financial institutions must also maintain a level of PR that is compatible with the risks to which their assets, liabilities and compensation accounts are exposed. Financial institutions may only distribute profits that exceed the legal capital adequacy requirement.

According to CMN Resolution No. 2,723, as amended, financial institutions, except credit unions, must keep consolidated accounting records (including for the purposes of calculation of their capital requirements) of their corporate holdings whenever, directly or indirectly, individually or jointly with other partners (even when based on voting trusts), the institutions hold a controlling interest in the investees. When capital control is not involved, the financial institution may opt for accounting using equity accounting method in lieu of such consolidated accounting.

In June 2004, the Basel Committee approved the Basel II Accord, a new framework for risk-based capital adequacy. The Basel II Accord sets out the details for adopting more risk-sensitive minimum capital requirements for banking organizations. Pursuant to the Central Bank Communication No. 19,028 of

October 29, 2009, the recommendations of the Basel II Accord will be fully implemented by the end of the first half of 2013, beginning in 2010 with market risk.

CMN Resolution No. 3,380, issued on June 29, 2006, sets forth new procedures for the implementation of operating risk internal control procedures whereby Brazilian banks were required to implement the principles of the Basel II Accord by the end of 2007.

On February 28, 2007, CMN Resolution No. 3,444 established the criteria for calculation of PR. In addition, on August 29, 2007, CMN Resolution No. 3,490 established new criteria for calculating the required reference shareholders' equity capital (PRE) of financial institutions effective from July 1, 2008.

CMN Resolution No. 3,464 of June 26, 2007, as amended, sets forth the procedures for the implementation of a market risk internal control structure.

On June 28, 2010, the Central Bank also published Circular No. 3,498, which introduces additional capital requirements for the trading book under stressed value-at-risk (VaR) based on historical data from a continuous 12-month period of significant financial stress. The implementation of these regulatory reforms may significantly impact the computation of our regulatory capital requirements.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements. In addition, they fully endorsed previous agreements regarding the overall design of the capital and liquidity reform package, the Basel III Accord, at the Seoul G20 Leaders summit in November 2010. The package of reforms proposed by the Basel Committee will increase the minimum common equity requirement from 2% to 4.5%. In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand periods of stress, bringing the total common equity requirements to 7%. The new rules are expected to be implemented gradually by the central banks of various countries between 2013 and 2019.

On January 13, 2011, the Basel Committee expanded on the Basel III Accord capital rules with additional requirements, known as the January 13 Annex, applicable to non-common Tier 1 or Tier 2 instruments issued by internationally active banks. The additional requirements would apply to all instruments issued after January 1, 2013, and otherwise qualifying instruments issued prior to January 1, 2012 will be phased out proportionately over a ten-year period, beginning in 2013. On February 17, 2011, the Central Bank issued Communication No. 20,615, pursuant to which the Central Bank indicated its willingness to implement the provisions of the January 13 Annex.

In March 2013, the CMN and the Central Bank issued a new regulatory framework aimed at implementing the recommendations contained in the Basel III Accord. Changes in the current regulations include:

- the PR continues to be defined as the sum of Tier I and Tier II Capital. However, Tier I Capital now encompasses the Principal Capital (*Capital Principal*) plus the so-called Complementary Capital (*Capital Complementar*), which includes some types of hybrid instruments duly authorized by the Central Bank that meet certain specific requisites, such as subordination and perpetuity;
- the calculation of the PR is to be done on a consolidated basis, and shall include, in addition to the financial entities belonging to the financial conglomerate, certain entities considered quasi-financial institutions, including, among others, non-financial credit card companies, insurance companies and investment funds;
- certain deductions in the calculation of the Tier I Capital, including, among others, those relating to premium based on future profits, tax credits and intangible assets, will be required to be made starting in 2014 at a 20% rate up to a 100% rate in 2018;
- the Principal Capital shall be complemented by the Additional of Principal Capital, which is essentially based on exposures relating to (i) credit risk, (ii) market risk, (iii) operational risk,

(iv) interest rate risk, (v) foreign exchange risk, (vi) price index risk, (vii) equity prices, (viii) commodity prices and (ix) gold. The Central Bank will establish the Additional of Principal Capital as follows (all rates relate to the total amount of risk weighted assets): (i) between 0.625% and 1.25% in year 2016; (ii) between 1.25% and 2.5% in year 2017; (iii) between 1.875% and 3.75% in year 2018; and (iv) between 2.5% and 5% starting year 2019;

- the minimum PR in relation to risk-weighted assets is set at 11% and will be reduced on a yearly basis up to 8% in 2019. Tier I Capital, also in relation to risk-weighted assets, is set at 5.5% starting October 2013 and will be increased up to 6% in January 2015, whereas the minimum Principal Capital shall correspond at least to 4,5% of the risk-weighted assets, as of October 2013.

Reserve and Other Requirements

Currently, the Central Bank imposes a series of requirements on financial institutions regarding compulsory reserves. Financial institutions must deposit reserves with the Central Bank. The Central Bank uses reserve requirements as a mechanism to control the liquidity of the Brazilian financial system.

Some of the current types of reserves required under Brazilian law include:

Demand Deposits. Pursuant to Circular No. 3,632 of February 21, 2013, as amended, banks and other financial institutions are generally required to deposit 44.0% (to be increased to 45.0% as of June 2014) of the daily average balance of their demand deposits, bank drafts, collection of tax receipts, debt assumption transactions and proceeds from the realization of guarantees granted to financial institutions in excess of R\$44.0 million with the Central Bank on a non-interest bearing basis. If the applicable reserve requirement of a financial institution is equal to or below R\$0.5 million, such financial institution will be exempt from setting aside reserve requirements set forth by Circular No. 3,632, although it must provide information to the Central Bank on demand deposits held by it. Financial institutions with Tier I component of the PR higher than R\$6.0 billion are allowed to deduct, from the amounts to be deposited with the Central Bank (up to 20% of such deposits), funds committed under certain lines of credit benefiting from government subsidies. At the end of each day, the balance in compulsory deposits account shall be equivalent to at least 80% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the following week.

Savings Accounts. Currently, pursuant to Circular No. 3,128 dated June 24, 2002, the Central Bank has established that Brazilian financial institutions are generally required to deposit in an interest-bearing account with the Central Bank, on a weekly basis, an amount in cash equivalent to 20.0% of the average aggregate balance of savings accounts during the prior week. In addition, a minimum of 65.0% of the total amount of deposits in saving accounts captured by the entities of the Brazilian Savings and Loan System (*Sistema Brasileiro de Poupança e Empréstimo*, or SBPE) must be used to finance residential real estate or the housing construction sector, as determined by CMN Resolution No. 3,932, of December 16, 2010. Amounts that can be used to satisfy this requirement include, in addition to direct residential real estate financings, mortgage notes, charged off residential real estate loans and certain other financings, all as specified in guidance issued by the Central Bank.

Pursuant to CMN Resolution No. 3,023 of October 11, 2002, as amended, the Central Bank established an additional reserve requirement of 10% on the savings account funds captured by the entities of the SBPE. CMN Resolution No. 3,843 of March 10, 2010, sets forth that this additional reserve requirement shall be deposited in cash and will bear interest at a SELIC-based interest rate.

Time Deposits. Pursuant to Central Bank Circular No. 3,569, of December 22, 2011, as amended, 20% of a financial institutions' time deposits and certain other amounts, after a deduction of R\$30.0 million, are subject to reserve requirements, in the amount exceeding: (i) R\$3.0 billion, for financial institutions with Tier I component of the PR below R\$2.0 billion; (ii) R\$2.0 billion, for financial institutions with Tier I component of the PR equal to or higher than R\$2.0 billion and below R\$5.0 billion; (iii) R\$1.0 billion, for financial institutions with Tier I component of the PR equal to or higher than R\$5.0 billion and below R\$15.0 billion; or (iv) zero, for financial institutions with Tier I component of the PR equal to or higher

than R\$15.0 billion. If the applicable reserve requirement of a financial institution is equal to or below R\$0.5 million, such financial institution will be exempt from setting aside reserve requirements set forth by Circular No. 3,569, although it must provide information to the Central Bank on time deposits held by it. Amounts subject to this reserve requirement shall be deposited in cash in a specific account and, part of such deposits will bear interest at a SELIC-based rate. At the end of each day, deposited amounts shall be equivalent to 100% of the applicable reserve requirement.

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

Pursuant to such regulations, the aforesaid entities are required to reserve, on a weekly basis, the cash equivalent of the sum of the following amounts in excess of R\$3.0 billion (for financial institutions with adjusted Tier I component of the PR below R\$2.0 billion), R\$2.0 billion (for financial institutions with Tier I component of the PR below R\$5.0 billion and equal to or higher than R\$2.0 billion), R\$1.0 billion (for financial institutions with Tier I component of the PR below R\$15.0 billion and equal to or higher than R\$5.0 billion), or zero (for financial institutions with Tier I component of the PR equal to or higher than R\$15.0 billion): (i) 11% of the arithmetic average of the time deposits funds and certain other amounts subject to the respective reserve requirement; (ii) 10% of the arithmetic average of the savings deposits funds subject to the respective reserve requirement; and (iii) 0% of the arithmetic average of the demand deposits funds subject to the respective reserve requirement. If the applicable reserve requirement of a financial institution is equal to or below R\$0.5 million, such financial institution will be exempt from the reserve requirements set forth by Circular No. 3,144 and amendments thereto. The reserve requirement must be met in cash in a specific account and, at the end of each day, the balance in such account shall be equivalent to 100% of such additional reserve requirement.

Deposits and Guarantees. Pursuant to Circular 3,090 of March 1, 2002, financial institutions are required to deposit with the Central Bank, on a non-interest bearing basis, an amount in cash equivalent to 45.0% of the amounts corresponding to the sum of the average balance of (i) deposits made by individuals or legal entities domiciled abroad, compulsory deposits and tied deposits (*depósitos vinculados*) in excess of R\$2.0 million and (ii) agreements with assumption of obligation related to transactions carried out in Brazil and guarantees granted by them (*garantias realizadas*) in excess of R\$2.0 million. At the end of each day, the balance in such account shall be equivalent to at least 100% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the following week.

Foreign currency. Pursuant to Circular No. 3,548, of July 8, 2011, as amended, financial institutions authorized to carry out foreign exchange transactions are required to deposit 60% of their daily exposure in foreign currencies exceeding the amount equivalent to US\$3.0 billion. Financial conglomerates may calculate these reserve requirements on a consolidated basis, in which case a 60% rate will be applied over the financial conglomerate's daily exposure in foreign currencies, deducted from the daily long positions in foreign currencies, exceeding the amount equivalent to US\$3.0 billion. Deposits will be made with the Central Bank on a non-interest bearing basis. If the applicable reserve requirement of a financial institution or financial conglomerate is equal to or below R\$0.1 million, such financial institution will be exempt from setting aside reserve requirements set forth by Circular No. 3,548.

In addition, in the past, the Central Bank imposed certain compulsory deposit requirements on other types of transactions that are no longer in effect. However, the Central Bank may restore these requirements or impose similar or more stringent restrictions in the future.

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 PR, calculated in accordance with criteria established by the Central Bank.

Brazilian financial institutions cannot have more than 25.0% of their PR 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 PR.

Repurchase Transactions

Repurchase transactions (*operações compromissadas*) are sale and repurchase agreements involving the sale of securities. Repurchase transactions carried out in Brazil are subject to operating capital limitations based on the financial institution's PR. A financial institution may only carry out repurchase transactions for an amount up to 30 times its PR. Within this limitation, repurchase transactions involving private bonds may not exceed five times the amount of PR.

Transactions with Affiliates

Law No. 7,492, enacted on June 16, 1986, which regulates 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 their family members, as well as any entity controlled directly or indirectly by such financial institution or which is subject to common control of 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.

Foreign Currency Loans

Pursuant to Central Bank regulation, financial institutions may borrow foreign currency denominated funds in international markets without obtaining the Central Bank's prior written consent, including to on-lend such funds to Brazilian individuals or companies in Brazil and other financial institutions. Banks make these on-lending transactions through loans payable in *reais*, though they are adjusted by foreign currency variation. The lending terms must reflect the terms of the original transaction. The interest rate charged on the underlying foreign loan must also be consistent with international market practices. In addition to the original cost of the transaction, the financial institution may only charge an additional on-lending fee.

The Central Bank may set limitations on the term, interest rate and general conditions of foreign currency loans. The Central Bank may change such limitations depending on the economic environment and the Brazilian government's monetary policy.

Substantially all foreign credit operations are subject to registration with the electronic system of the Central Bank, through the so-called RDE-ROF Module. Failure to correctly inform the Central Bank of the terms of such foreign credit transaction may subject the financial institution to warnings and fines.

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 make provisions according to the risk level attributed to each transaction. Such credit classifications are determined in accordance with criteria set forth from time to time by the Central Bank relating to: (i) 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 (ii) 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 more stringent. Credit classifications are required to be reviewed:

- on a monthly basis, 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 nine 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 25, 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.

Facilitation of Financial Sector Consolidation

The Brazilian government established a set of rules with the purpose of facilitating corporate reorganizations among financial institutions in order to assure the liquidity and solvency of the national financial system and safeguard the interests of depositors and investors. The main measures include: (i) granting the Central Bank power to determine the decrease in current levels of mandatory capitalization and to regulate the transfer of control and/or corporate restructuring of financial institutions; (ii) the establishment by the Central Bank of a special credit facility, known as the Program for the Improvement and Enhancement of the National Financial System (*Programa de Estímulo à Reestruturação e ao Fortalecimento do Sistema Financeiro Nacional*), or 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 (iii) 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 allows the Central Bank to intervene in order 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 these rules could subject it to the Temporary Special Administration Regime (*Regime de Administração Temporária*), or RAET, as described below. The PROER was established 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.

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 financial institution is responsible for implementing an effective internal controls structure by defining responsibilities and control procedures and establishing corresponding objectives 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 of a financial institution 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.

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. The Brazilian Payment and Settlement System (*Sistema de Pagamentos Brasileiro*), or SPB, began operating in April 2002. The Central Bank and the CVM have the power to regulate and supervise SPB. Pursuant to these rules, all clearing houses are required to adopt procedures designed to minimize the possibility of systemic crises and the risks previously articulated by the Central Bank. The most important principles of SPB are the following:

- 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 in Brazil

Financial institutions are subject to the proceedings established by Law No. 6,024, enacted on March 13, 1974, and Decree No. 2,321, enacted on September 8, 1987, which establish the applicable provisions in the event of intervention, temporary administration or extra-judicial liquidation by the Central Bank, as well as to bankruptcy proceedings.

Intervention and extra-judicial liquidation occur when a financial institution is in a precarious 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 of or to liquidate any financial institution other than public financial institutions controlled by the Brazilian federal government. An intervention may be ordered at the discretion of the Central Bank if any of the following is detected:

- due to mismanagement, the financial institution has suffered losses leaving creditors at risk;
- the financial institution has consistently violated Brazilian banking laws or regulations;
- the financial institution fails to pay net debts as they fall due without a relevant legal reason;
- the financial institution is involved in enforcement proceedings and fails to pay or secure payment of the debt;
- the financial institution uses fraudulent means to pay debts;
- the financial institution calls the creditors to propose renegotiation of debts or assignment of assets;
- the financial institution delays payments or defrauds creditors (or seeks to delay payments or defraud creditors) by selling assets or entering into simulated transactions (sham);
- the financial institution sells its main assets to third parties without approval from all creditors and without remaining with sufficient assets to secure payment of debts;
- the financial institution creates (or seeks to create) security over assets, in respect of existing debts, without maintaining sufficient free and clear assets to secure payment of debts; or
- the financial institution leaves its establishment without a legal representative to run the business and without sufficient assets to pay creditors.

Except for the first two bullet points above, these situations would be grounds for an intervention only to the extent that it is a feasible alternative to the liquidation of the financial institution.

As of the date on which it is ordered, the intervention will automatically: (i) suspend the enforceability of payable obligations; (ii) suspend maturity of any previously contracted obligations; and (iii) freeze deposits existing on the date on which the intervention is ordered. The intervention ceases: (a) if interested parties undertake to continue the economic activities of the financial institution, by presenting the necessary guarantees, as determined by the Central Bank; (b) when the situation of the financial institution

is normalized, as determined by the Central Bank; or (c) 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 nine months, which may be extended only once for up to six additional months by the Central Bank. The intervention proceedings are 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 under the Brazilian Bankruptcy Law, or BBL, 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 ordered by the Central Bank (to financial institutions other than those 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 a troubled financial institution, liquidating its assets and paying its liabilities, as in an-extra judicially decreed bankruptcy.

The Central Bank will order the extra-judicial liquidation of 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 become due, or upon the occurrence of an event that indicates a state of insolvency under the rules of the BBL;
- 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: (i) suspend the actions or foreclose on rights and interests relating to the estate of the entity being liquidated, and no other actions or executions may be brought during the liquidation; (ii) accelerate the obligations of the entity; (iii) interrupt the statute of limitations with regard to the obligations assumed by the institution; (iv) avoid penalties provided in agreements that became due by virtue of the extra-judicial liquidation; (v) ratably deduct interest until the date when the debts are paid in full; (vi) avoid fines for infringement of criminal or administrative laws; and (vii) freeze all assets belonging to the managers (who acted as managers in the 12 months preceding the declaration of liquidation of the financial institution (this rule also applies to the intervention process)) until their respective liabilities are fully settled.

The extra-judicial liquidation will also cease: (i) if interested parties undertake to continue the company's business activities, by presenting the necessary guarantees, at the discretion of the Central Bank; (ii) with the approval of the final accounts of the liquidator and entry in the appropriate public registry; (iii) when converted into ordinary liquidation; or (iv) with a decree of bankruptcy.

On the other hand, a request for liquidation procedures can be filed on reasonable grounds by the officers of the respective financial institution or by the receiver appointed by the Central Bank in the receivership proceedings.

Temporary Special Administration Regime (RAET)

In addition to the intervention procedures described above, the Central Bank may also establish a RAET, which is a less intrusive form of intervention in private and non-federal public financial institutions. A RAET also allows troubled institutions to continue to operate their activities in the ordinary course. The RAET may be ordered in the case of an institution which:

- enters into recurrent operations that are against economic or financial policies set forth in federal law;
- faces a shortage of assets;
- fails to comply with the compulsory reserves rules;
- has reckless or fraudulent management;
- carries out activities which call for an intervention; or
- the occurrence of any of the situations described above that may result in a declaration of intervention.

The main objective of a RAET is to assist the troubled institution under special administration to recover and avoid intervention and/or liquidation. A RAET does not affect the day-to-day business, operations, liabilities or rights of the financial institution, which continues to operate in the ordinary course.

There is no minimum term for a RAET, but such procedure ceases upon the occurrence of any of the following events: (i) acquisition of control of the financial institution by the Brazilian federal government, (ii) corporate restructuring, merger, spin-off, amalgamation or transfer of the controlling interest of the financial institution, (iii) decision by the Central Bank or (iv) declaration of extra-judicial liquidation of the financial institution.

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 pro rata basis in the following order:

- labor claims, capped at an amount equal to 150 times the minimum wages per employee, and claims relating to occupational accidents;
- secured claims up to the encumbered asset value;
- tax claims, except tax penalties;
- claims with special privileges;
- claims with general privileges;
- unsecured claims;
- contractual fines and pecuniary penalties for breach of administrative or criminal laws, including those of a tax nature; and
- subordinated claims.

Super-priority and post-petition claims (for example, costs related to the liquidation or bankruptcy procedure), as defined under the BBL, are paid with preference over pre-petition claims.

In November 1995, the Central Bank created the FGC to guarantee the payment of funds deposited with financial institutions in case of intervention, administrative liquidation, bankruptcy or other state of insolvency. The member entities of the FGC are financial institutions, which take demand, time and savings deposits, as well as savings and loan associations. The FGC is funded principally by mandatory contributions from all Brazilian financial institutions that work with customer deposits.

The FGC is a deposit insurance system that guarantees, pursuant to CMN Resolution No.4,087 of May 24, 2012, as amended, a maximum amount of R\$70,000 of deposit and certain credit instruments held by a customer against a financial institution (or against member financial institutions of the same financial group). The liability of the participating institutions is limited to the amount of their contributions to the FGC, with the exception that in limited circumstances if FGC payments are insufficient to cover insured losses, the participating institutions may be asked for extraordinary contributions and advances. The payment of unsecured credit and customer deposits not payable under the FGC is subject to the prior payment of all secured credits and other credits to which specific laws may grant special privileges.

In addition, two laws, introduced in 1995, affect the priority of repayment of creditors of Brazilian banks in the event of their insolvency, bankruptcy or similar proceedings. First, Law No. 9,069 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 adopted by CMN's Resolution No. 1,065 of December 5, 1985, as amended, provides penalties that 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 a cancellation is applicable under certain circumstances established by the Central Bank, such as in the 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.

Pursuant to CMN's Resolution No. 4,122 of August 2, 2012, the Central Bank may also cancel the financial institution's authorization to operate if one or more of the following situations occur: (i) failure to carry out the financial transactions that usually characterize the type of financial institution in which the respective entity is classified, (ii) operational inactivity, without acceptable justification, (iii) the institution is not located at the address that was provided to the Central Bank, (iv) failure to provide the financial statements required by the regulations to the Central Bank for over four months without acceptable justification, and/or (v) failure to observe the agreed business plan. The cancellation of a banking license may only occur after the appropriate administrative proceedings are carried out by the Central Bank.

Anti-Money Laundering Regulations and Banking Secrecy in Brazil

Pursuant to Circular 3,461 enacted by the Central Bank on July 24, 2009, as amended, which consolidated and improved Brazilian anti-money laundering legislation, financial institutions (including their branches and subsidiaries abroad) are required to: (i) 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); (ii) adopt preventive policies and internal procedures; (iii) record transactions involving Brazilian and foreign currency, securities, metals or any other asset which may be converted into money, including specific registries for issuance or recharging of prepaid cards; (iv) maintain records of transactions carried out by individuals or entities belonging to the same group of companies in an amount that exceeds R\$10,000 in a calendar month or reveals a pattern of activity that may suggest a scheme to avoid identification; (v) review transactions or proposals that may indicate criminal activity; (vi) maintain records of every transfer of funds related to (a) deposits, wire transfers, and checks, among others and (b) issuances of checks and order of payments, among others, in

amounts that exceed R\$1,000; and (vii) notify the relevant authority of any transaction that may be considered suspicious 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 (iii) and (iv) above that exceed R\$100,000. Notwithstanding, the financial institutions must review transactions that have characteristics which may indicate the existence of a crime and inform the Central Bank within one business day of the proposed or executed transaction, in accordance with Law No. 9,613 enacted on March 3, 1998, as amended. The records referred to above must be maintained for at least five years or ten years, depending on the nature of the information, 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 fines and penalties that vary in amount (between 1.0% and 100.0% of the transaction amount or 200.0% over any profit generated or over the transaction amount) and which could lead to officers and directors to be considered 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 Council of Control of Financial Activities (*Conselho de Controle de Atividades Financeiras*), 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 comprised of a president appointed by the Ministry of Finance and eleven members of the council, one of whom is appointed by each of the following entities: (i) the Central Bank; (ii) the CVM; (iii) the Ministry of Foreign Affairs; (iv) the SUSEP; (v) the Federal Revenue Service (*Secretaria da Receita Federal*); (vi) the Office of the Attorney-General of the Brazilian National Treasury; (vii) the Federal Police Department; (viii) the Federal Intelligence Agency; (ix) the Ministry of Justice; (x) the Ministry of Social Security; and (xi) Federal General Controller (*Controladoria Geral da União*). The term of office of each of the president and the other members of the council is three years.

On March 12, 2012, the Central Bank amended the rules applicable to procedures that must be adopted by financial institutions in the prevention and combat of money laundering and terrorism financing, as a response to the recommendations of the Financial Action Task Force. The main measures include: (i) enactment of Circular No. 3,583, which sets forth that (a) financial institutions must not initiate any relationship with clients or proceed with existing relationships, if it is not possible to fully identify such clients and (b) anti-money laundering procedures are also applicable to agencies and subsidiaries of Brazilian financial institutions located abroad; (ii) enactment of Circular No. 3,584, establishing that the institutions authorized to operate in the Brazilian foreign exchange market with financial institutions located abroad must verify if the other party is physically present in the country where it was organized and licensed or is effectively supervised; and (iii) enactment of Letter Circular No. 3,542, which increases the list of examples of transactions and situations which may characterize evidence of occurrence of money-laundering, tending to improve the communication between financial institutions and the COAF.

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: (i) express consent of the interested parties; (ii) the exchange of information between financial institutions for record purposes; (iii) the supply to credit reference agencies of information based on data from the records of issuers of bank checks drawn on accounts without sufficient funds and defaulting debtors; and (iv) 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 in Brazil

Pursuant to Circular No. 3,461, issued by the Central Bank on July 24, 2009, as amended, financial institutions (including their branches and subsidiaries abroad) and other institutions authorized to operate by the Central Bank are required to take certain actions to establish business relationships with, and to follow-up on, financial transactions of customers who are deemed so-called “politically exposed individuals.”

For purposes of this regulation, politically exposed individuals are public agents and their immediate family members, spouses, life partners and step-children 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.

Auditing Requirements

We are required under the rules set forth by the Central Bank to prepare financial statements in accordance with the rules and accounting guidelines from the Central Bank (which are also part of Brazilian GAAP). As a financial institution, we are required by the Central Bank to (i) present annual and semi-annual audited financial statements; and (ii) file quarterly financial information with the Central Bank, with a specific review report prepared by independent auditors.

Under CMN Resolution No. 3,786 enacted on September 24, 2009, as from December 31, 2010, we are required to present, in addition to the statutory annual financial statements prepared under the accounting guidelines from the Central Bank, annual consolidated financial statements prepared in accordance with IFRS, and accompanied by an independent audit report confirming that the financial statements have been so prepared.

Independent Auditors in Brazil

On May 27, 2004, the CMN issued Resolution No. 3,198, which regulates the rendering of independent auditors’ services to financial institutions and other institutions authorized to operate in Brazil by the Central Bank, as well as clearing houses and clearing and custody service providers. According to CMN Resolution No. 3,198, financial institutions (except for microcredit loan societies) must be audited by independent auditors. Financial institutions may only engage independent auditors that are duly registered with the CVM and certified as specialists in banking analysis by the Central Bank. The Central Bank has recently amended previous rules it had established regarding the independence of auditors, and its current rules require a rotation for a period of at least five consecutive years for the partner in charge, manager, supervisor or any other members of the independent audit team who have had a managerial level role in the auditing work of a financial institution. Additional requirements imposed by the Central Bank relating to the work performed by independent auditors for a financial institution in Brazil, include the following:

- review during the execution of audit procedures, to the extent deemed necessary, the financial institution’s internal 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.

Audit Committee

CMN Resolution No. 3,198, as amended, requires financial institutions and certain other entities holding a reference net worth equal to or greater than R\$1.0 billion to establish 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 each for publicly held companies. At least one of the members of the audit committee must have specific 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 comprising the same group, *provided* that these financial institutions comply with the requirements mentioned above.

Ombudsman Office

CMN Resolution No. 3,849, of March 25, 2010, or Resolution No. 3,849, establishes that financial institutions and other entities authorized to operate by the Central Bank (in the latter case, to the extent they have micro-enterprises as clients) are required to create an ombudsman office, or Ombudsman Office, independent from internal audit, and compatible with the nature and complexity of their products, services, activities, processes and systems. The Ombudsman Office needs to meet the requirements set forth in Resolution No. 3,849, taking into account efficiency in responding to clients' complaints and opinions, internal handling of deficiencies identified in operating processes, staff training, semi-annual reporting to the Central Bank, and adding value to the Bank's business and internal control through appropriate reporting to senior management on the nature of these demands.

Pursuant to Resolution No. 3,849, the by-laws of financial institutions shall provide for: (a) the duties of the Ombudsman Office; (b) criteria for the election and the removal of the ombudsman, as well as its term of office; and (c) the express commitment of the financial institution to create conditions to permit the Ombudsman Office to operate transparently, independently, impartially and objectively, and ensure the Ombudsman Office's access to information to prepare replies to the complaints received.

Resolution No. 3,849 sets forth that financial institutions are required to appoint an ombudsman and an officer responsible for the Ombudsman Office before the Central Bank, *provided* that the following requirements are met:

- the officer responsible for the Ombudsman Office is authorized to hold another position at the financial institution, except for the position as officer responsible for managing third party funds;
- in case of full-service banks, commercial banks, savings and loans banks and credit, financing and investment companies, the ombudsman cannot hold any other position in the financial institution, except for the position as officer responsible for the Ombudsman Office;
- if the same person is appointed to both the ombudsman and the Ombudsman Office's officer positions, such person is prohibited from holding any other position in such financial institution; and
- the information data about the officer responsible for the Ombudsman Office and the ombudsman must be inserted and updated into the information system designated by the Central Bank.

Foreign Investment in Brazilian Financial Institutions

The Constitution of Brazil permits foreign individuals or companies to invest in the voting shares of Brazilian financial institutions only if they have specific authorization from the President of Brazil based on national interest or reciprocity. In addition, foreign investors may acquire publicly traded non-voting shares of Brazilian financial institutions traded on a stock exchange without specific authorization.

Regulation of Branches and Subsidiaries

As provided by CMN Resolution No. 2,723, of May 31, 2000, as amended, the Central Bank requires authorization for operations of foreign branches or subsidiaries of Brazilian financial institutions, including compliance with the following: (i) the institution must have been in operation for at least six years; (ii) the institution must be in compliance with operational limits currently in force; (iii) the institution's paid-up capital and net worth must meet the minimum levels established in Exhibit II to CMN Resolution No. 2,099, of August 17, 1994, as amended, plus an amount corresponding to 300.0% of the minimum paid-up capital and net worth required by Central Bank regulations for the installation of commercial banks; and (iv) the Brazilian financial institution must 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 it 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. Any delays in providing the Central Bank with the required information and documents will subject the relevant financial institution to fines. Furthermore, the failure by a Brazilian bank to comply with the requirements of CMN 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 of the Central Bank.

The Central Bank's prior authorization is also required: (i) in order to allocate new funds to branches or subsidiaries abroad; (ii) for capital increases, directly or indirectly, of subsidiaries abroad; (iii) in order to increase equity interests, directly or indirectly, in subsidiaries abroad; and/or (iv) in order to merge with or spin-off from, directly or indirectly, subsidiaries abroad. These requirements are only applicable if such subsidiary is a financial institution or similar entity.

Equity Participations by Financial Institutions

As provided by CMN Resolution No. 2,723, of May 31, 2000, as amended, financial institutions may only directly or indirectly hold equity in legal entities (incorporated locally or abroad) that supplement or subsidize the financial institutions' activities, provided they obtain prior authorization from the Central Bank and that the other entity does not hold equity of the financial institution. However this requirement for authorization does not apply to (i) equity interests typically held in the investment portfolios of investment banks, development banks, development agencies (*agências de fomento*) and multiservice banks with investment or development portfolios; and (ii) temporary equity interests not registered as permanent assets of the financial institution.

Asset Management Regulation

Asset management was previously regulated by the Central Bank and the CVM. Pursuant to Law No. 10,198, of February 14, 2001, as amended, and Law No. 10,303 of October 31, 2001, the regulation and supervision of both financial mutual funds and variable income funds, as well as transactions involving derivatives, were transferred to the CVM. On July 5, 2002, the CVM and the Central Bank entered into a memorandum of understanding under which they agreed on the general terms and conditions for the transfer of such duties to the CVM. The asset management industry is also self-regulated by ANBIMA (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*), which enacts additional rules and policies, especially with respect to marketing and advertising.

According to CVM Instruction No. 306, of May 5, 1999, as amended, individuals or entities authorized by the CVM may act as managers of third party assets. Financial institutions must segregate the management of third party assets from their other activities. These institutions must appoint an officer as the agent responsible for the management and supervision of such assets.

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

The Central Bank issued Circular No. 3,086 of February 15, 2002, as amended, which establishes criteria for the registration and accounting evaluation of titles, securities and financial instruments, derivatives that form financial investment funds, application funds in quotas at investment funds, individual programmed retirement funds and offshore investment funds. By this 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.

On August 18, 2004, the CVM enacted Instruction No. 409, as amended, which consolidated the rules applicable to investment funds (except for structured investment funds, which are regulated by specific rules).

Regulation in the Cayman Islands

Banks and trust companies in the Cayman Islands must be licensed under the Banks and Trust Companies Law (2009 Revision). Licenses are granted by the Cayman Islands Monetary Authority. It is government policy that bank licenses should only be granted to applicants with an established track record in the banking or finance industry and that a branch or a new entity is or will be a member of a group with acceptable home-base supervising regulation.

Under the Banks and Trust Companies Law (2009 Revision), as amended, there are two basic categories of banking license: an "A" license, which permits unrestricted domestic and off-shore business, and a "B" license, which permits only off-shore business. According to the Cayman Islands Monetary Authority's website, currently there are 15 banks holding "A" licenses and 218 banks holding "B" licenses. The holder of a "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 business locally with the public or residents in the Cayman Islands.

Branches of foreign banks operating in the Cayman Islands, such as Banco BTG Pactual S.A., must maintain the minimum capital adequacy requirements as stipulated by their home jurisdictions. All other bank license holders are required to comply with the Cayman Islands Monetary Authority's implementation of the Basel II Framework for capital adequacy requirements.

Regulation in the United Kingdom

One of our operating entities, BTG Pactual Europe LLP, or BTG Pactual Europe, is authorized by the FSA to provide investment services in the United Kingdom. As an FSA authorized investment advisor, BTG Pactual Europe's operations are subject to the supervision of the FSA, and BTG Pactual Europe is required to comply with the rules issued by the FSA regarding its operations. The FSA rules require BTG Pactual Europe to meet the standard set for different areas of its operations. The FSA rules are concerned with, among other matters, the following items:

- satisfying at all times the threshold conditions for authorization;
- having adequate senior management arrangements, systems and controls which includes operational, market, counterparty and other risk assessment;
- regulatory capital requirements;
- conduct of business requirements, including the fair treatment of customers and the suitability of investment decisions made for client portfolios;
- training and qualifications of employees and management;
- complaints handling processes;
- internal systems and controls with regard to market abuse and insider dealing; and
- executive remuneration.

BTG Pactual Europe must also, in undertaking its business and operations, act in accordance with the FSA's Statements of Principle for Businesses, or the Principles. Pursuant to these Principles, BTG Pactual Europe is required to:

- conduct its business with integrity and with due skill, care and diligence;
- take reasonable care to organize and control its affairs responsibly and effectively, with adequate risk management systems;
- maintain adequate financial resources;
- observe proper standards of market conduct;
- pay due regard to the interests of its customers and treat them fairly;
- pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading;
- manage conflicts of interest fairly, both between itself and its customers and between a customer and another client;
- take reasonable care to ensure the suitability of its advice and discretionary decisions for any

customer who is entitled to rely upon its judgment;

- arrange adequate protection for clients' assets when it is responsible for them; and
- deal with its regulators in an open and cooperative way, and disclose to the FSA appropriately anything relating to BTG Pactual Europe of which the FSA would reasonably expect notice.

Regulation in the United States

The securities industry is subject to extensive regulation under U.S. federal and state laws. Accordingly, we and certain of our U.S. subsidiaries are subject to regulation, including periodic examination, primarily at the federal level, by the SEC and FINRA, a self-regulatory organization, and other government agencies and regulatory bodies.

Our subsidiary, BTG Pactual Asset Management US, LLC, is registered as an investment adviser with the SEC and is subject to various laws and regulations that are primarily intended to protect investment advisory clients. The Investment Advisers Act of 1940, as amended, or the Advisers Act, imposes numerous obligations on investment advisers, including record-keeping, operational and marketing requirements, disclosure obligations, and prohibitions on fraudulent activities. Investment advisers are also subject to certain state securities laws and regulations. FINRA itself is subject to oversight by the SEC.

Our subsidiary, BTG Pactual US Capital, LLC, is registered as a broker-dealer with the SEC and is a member of FINRA. Our broker-dealer has a membership agreement with FINRA that limits the scope of its permitted activities, and our broker-dealer is required to comply with various laws and regulations. Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, record-keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of FINRA, BTG Pactual US Capital, LLC is subject to the SEC's uniform net capital rule, Rule 15c3-1 under the Exchange Act. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. Our broker-dealer is required to maintain minimum net capital of US\$200,000. Broker-dealers are also subject to certain state securities laws and regulations.

In addition, U.S. Congress, regulators, and others continue to consider increased regulation of the securities industry and, in particular, the private investment fund industry, including placing limits on certain trading activities, increasing trading costs and requiring greater reporting requirements. It is difficult to predict how changes in regulations might affect us, the markets in which we trade and invest, and the counterparties with which we do business. We may be materially and adversely affected by new legislation, rule-making, or other changes in the interpretation of enforcement of existing rules and regulations by various regulators.

Non-compliance with federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines, damage to our reputation and termination of our investment adviser's or our broker-dealer's authorization to conduct its business.

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 relevant Final Terms, will apply to the Notes referred to in such 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”) to be dated January 9, 2013 and made between Banco BTG Pactual S.A. (the “Bank”) and Deutsche Trustee Company Limited (the “Trustee” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders and Couponholders (each as defined in Condition 1(c)), which Trust Deed is hereby incorporated by reference. In these terms and conditions the “Issuer” means the Bank acting through its head office or through its Cayman Islands Branch as specified on the Notes. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and the Coupons (if any) relating to them (the “Coupons”). Copies of the Trust Deed and of the amended and restated agency agreement (as amended from time to time, the “Agency Agreement”) to be dated January 9, 2013 and made between the Bank, the Trustee and the Agents (as defined below) are available for inspection during usual business hours at the specified offices of each of the Trustee and the principal paying agent, the paying agent in London, the other paying agents, the calculation agent, the registrar, the exchange agent and the transfer agents for the time being. Such persons are referred to below respectively as the “Principal Paying Agent,” the “London Paying Agent,” the “Paying Agents” (which expression shall include the London Paying Agent but shall not include the Principal Paying Agent), the “Calculation Agent,” the “Registrar” (which expression shall mean, in respect of any Note represented by a DTC Global Note, the U.S. Registrar and, in respect of any Note represented by a European Global Note, the European 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. The Specified Denomination of each Note is specified on it.

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

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

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

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

(c) *Title:* Title to the Bearer Notes, the Coupons relating thereto and, where applicable, the Talons relating thereto shall pass by delivery. Title to the Registered Notes shall pass by registration in the Register. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any

Note, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

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

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

(e) *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 the “Final Terms”). Capitalized terms used in these Conditions in respect of a Note, and not specifically defined in these Conditions, have the meaning given to them in the applicable 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. Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

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

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

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

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

(d) *Regulations:* All transfers of Registered Notes and entries on the Register will be made

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

3. Status

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

4. Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed) the Issuer will not create or permit to subsist any Security upon the whole or any part of its undertakings or assets, present or future (including any uncalled capital) to secure (i) any of its Public External Indebtedness; or (ii) any of its Guarantees in respect of Public External Indebtedness; without at the same time or prior thereto securing the Notes equally and 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.

For the purpose of these Conditions:

(a) “External Indebtedness” means Indebtedness which is payable (or may be paid) (i) in a currency or by reference to a currency other than the currency of the Federative Republic of Brazil (“Brazil”) and (ii) to a person resident or having its principal place of business outside Brazil.

(b) “Guarantee” means any obligation of a person to pay the Indebtedness of another person including without limitation:

- (i) an obligation to pay or purchase such Indebtedness;
- (ii) an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) an indemnity against the consequences of a default in the payment of such Indebtedness; or
- (iv) any other agreement to be responsible for such Indebtedness.

(c) “Indebtedness” means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing).

(d) “person” means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having a separate legal personality.

(e) “Public External Indebtedness” means any External Indebtedness which is in the form of, or represented by, bonds, notes or other securities which are for the time being or are capable of being or intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

(f) “Security” means any mortgage, pledge, lien, hypothecation or security interest including, without limitation, any equivalent created or arising under the laws of Brazil.

5. Interest

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

(I) Fixed Rate Notes

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

(a) *Interest Rate and Accrual:* Each Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date (as defined in Condition 5(III)) in respect thereof at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified on such Note. Such interest is payable in arrear on each Interest Payment Date in each year and on the Maturity Date specified on such Note if that date does not fall on an Interest Payment Date. The amount(s) of interest payable in respect of such Note may be specified on such Note as the Fixed Coupon Amount(s) or, if so specified, the Broken Amount.

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

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

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

(II) Floating Rate Notes

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

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

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

- (i) At or about the Relevant Time (as defined in Condition 5(III)) on the relevant Interest Determination Date (as defined in Condition 5(III)) in respect of each Interest Period (as defined in Condition 5(III)), the Calculation Agent will:
 - (A) in the case of a Note which specifies that the Primary Source for Floating Rate shall be derived from a specified page, section or other part of a particular information service (each as specified on such Note), determine the Rate of Interest for such Interest Period which shall, subject as provided below, be (x) the Reference Rate (as defined in Condition 5(III)) so appearing in or on that page, section or other part of such information service (where such Reference Rate is a composite quotation or interest rate per annum or is customarily supplied by one person) or (y) the arithmetic mean (rounded up, if necessary, to the next one-hundred thousandth of a percentage point) of the Reference Rates of the persons at that time whose Reference Rates so appear in or on that page, section or other part of such information service, in any such case in respect of deposits in the relevant Specified Currency made with or by such person or persons for a period equal to the duration of such Interest Period; and
 - (B) in the case of a Note which specifies that the Primary Source for Floating Rate shall be the Reference Banks specified on such Note and in the case of a Note falling within Condition 5(II)(b)(i)(A) but in respect of which (x) no Reference Rate appears at or about such Relevant Time or (y) the Rate of Interest for which is to be determined by reference to quotations of persons appearing in or on the relevant page, section or other part of such information service as provided in Condition 5(II)(b)(i)(A) but in respect of which less than two Reference Rates appear at or about such Relevant Time, request the principal offices in the Relevant Banking Center (as defined in Condition 5(III)) of each of the Reference Banks specified on such Note (or, as the case may be, any substitute Reference Bank appointed from time to time pursuant to Condition 5(II)(h)) to provide the Calculation Agent with its Reference Rate quoted to leading banks for deposits in the relevant Specified Currency for a period equivalent to the duration of such Interest Period. Where this Condition 5(II)(b)(i)(B) applies, the Rate of Interest for the relevant Interest Period shall, subject as provided below, be the arithmetic mean (rounded up, if necessary, to the next one-hundred thousandth of a percentage point) of such Reference Rates as calculated by the Calculation Agent.
- (ii) If at or about the Relevant Time on any Interest Determination Date where the Rate of Interest is to be determined pursuant to Condition 5(II)(b)(i)(B) in respect of a Note, more than one but not all of such Reference Banks provide such relevant quotations, the Rate of Interest for the relevant Interest Period shall, subject as provided below, be determined as aforesaid on the basis of the Reference Rates quoted by those Reference Banks.
- (iii) If at or about the Relevant Time on any Interest Determination Date where the Rate of Interest is to be determined pursuant to Condition 5(II)(b)(i)(B), only one or none of such Reference Banks provide such Relevant Rates, the Rate of Interest for the relevant Interest Period shall, subject as provided below, be whichever is the higher of:
 - (A) the Rate of Interest in effect for the last preceding Interest Period to which Condition 5(II)(b)(i)(A) or (B) or Condition 5(II)(b)(ii) applied; and

- (B) the rate per annum (expressed as a percentage) which the Calculation Agent determines to be the arithmetic mean (rounded up, if necessary, to the next one-hundred thousandth of a percentage point) of the Reference Rates in respect of the relevant currency which banks in the Relevant Financial Center for such Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent (after consultation with the Issuer) are quoting at or about the Relevant Time on the relevant Interest Determination Date for a period equivalent to such Interest Period to leading banks carrying on business in that Relevant Financial Center or, if the Specified Currency is euro, in Europe, provided that, if the banks so selected by the Calculation Agent are not quoting as aforesaid, the Rate of Interest shall, subject as provided below, be the rate of interest specified in Condition 5(II)(b)(iii)(A).
- (iv) In the case of a Note which specifies that the manner in which the Rate of Interest is to be determined shall be ISDA Determination, the Rate of Interest for each Interest Period shall, subject as provided below, be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (iv), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - (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 (iv), "Floating Rate," "Calculation Agent," "Floating Rate Option," "Designated Maturity," "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

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

(d) *Determination of Rate of Interest and Calculation of Interest Amounts:* The Calculation Agent will, as soon as practicable after the Relevant Time on each Interest Determination Date, determine the Rate of Interest in the manner provided for in this Condition 5 and calculate the amount of interest payable (the "Interest Amounts") in respect of each Specified Denomination of the relevant Notes (in the case of Bearer Notes) and the minimum Specified Denomination (in the case of Registered Notes) for the relevant Interest Period. The Interest Amounts shall be calculated by applying the Rate of Interest adjusted, if necessary, by any Margin (as defined in Condition 5(III)) and/or Rate Multiplier (as defined in Condition 5(III)) to each Specified Denomination (in the case of Bearer Notes) and the minimum Specified Denomination (in the case of Registered Notes), and multiplying such product by the applicable Day Count Fraction (as defined in Condition 5(III)) rounding, if necessary, the resultant figure to the nearest unit of the relevant currency (half of such unit being rounded upwards or, in the case of Yen downwards). The determination of the Rate of Interest and the Interest Amounts by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties and no liability shall attach to the Calculation Agent in connection with the exercise of its powers, duties and discretions hereunder, except by reason of its own gross negligence or willful misconduct in connection with such exercise.

(e) *Notification of Rate of Interest and Interest Amounts:* The Calculation Agent will cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Specified Interest Payment Date to be notified to the Trustee, the Issuer, each of the Agents, the Noteholders (in accordance with Condition 17) and if the relevant Notes are for the time being listed on any stock exchange (each an “Exchange”) and the rules of that Exchange so require, the Exchange as soon as possible after their determination but in no event later than two Relevant Business Days (as defined in Condition 5(III)) after their determination. The Interest Amounts and the Specified Interest Payment Date so notified may subsequently be amended by the Calculation Agent (or appropriate alternative arrangements made by way of adjustment) 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 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 it can do so (having such regard as it thinks fit to sub-paragraph (b) above), and in all other respects it shall do so in accordance with sub-paragraph (d) above. The determination of the Rate of Interest and the Interest Amounts by the Trustee in accordance with this sub-paragraph (g) shall (in the absence of manifest error) be final and binding upon all parties and no liability shall attach to the Trustee in connection with the exercise of its powers, duties and discretions hereunder, except by reason of its own gross negligence or willful misconduct in connection with such exercise.

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

(III) Definitions

As used in these Conditions:

“Business Day Convention” means either:

- (A) the “Floating Rate Business Day Convention,” in which case interest on a Note shall be payable on each Specified Interest Payment Date which numerically corresponds to its Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date in the calendar month which is the Interest Period specified on such Note after the calendar month in which such Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date occurred, provided that:—

- (x) 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;
 - (y) 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
 - (z) if such Interest Commencement Date or the preceding Specified Interest Payment Date occurred on the last day in a calendar month which was a Relevant Business Day, then all subsequent Specified Interest Payment Dates in respect of such Note will be the last day which is a Relevant Business Day in the calendar month which is the Interest Period specified on such Note after the calendar month in which such Interest Commencement Date or, as the case may be, the preceding Specified Interest Payment Date occurred; or
- (B) the “Modified Following Business Day Convention,” in which case interest on a Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first following day which is a Relevant Business Day unless that day falls in the next calendar month, in which case the relevant Interest Payment Date or Specified Interest Payment Date will be the first preceding day which is a Relevant Business Day; or
- (C) the “Following Business Day Convention,” in which case interest on a Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first following day which is a Relevant Business Day; or
- (D) the “Preceding Business Day Convention,” in which case interest on a Note shall be payable on such Interest Payment Dates or Specified Interest Payment Dates as may be specified on such Note, provided that, if any Interest Payment Date or Specified Interest Payment Date would otherwise fall on a date which is not a Relevant Business Day, the relevant Interest Payment Date or Specified Interest Payment Date will be the first preceding day which is a Relevant Business Day; or
- (E) such other Business Day Convention as may be specified on the relevant Note.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “Calculation Period”):

- (i) if “Actual/365” 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 on such Note, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (v) if “30E/360” or “Eurobond Basis” is specified on such Note, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);
- (vi) if “Actual/Actual - ISMA” is specified on such Note, (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and (b) if the Calculation Period is longer than one Determination Period, the sum of: (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
- (vii) if “Bus/252” is specified on such Note, the number of Relevant Business Days in the Calculation Period divided by 252.

For the purposes of this definition of Day Count Fraction:

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

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

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

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

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

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

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

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

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

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

“Relevant Banking Center” means, for any Note, the Relevant Banking Center specified on such Note or, if none is so specified, the banking center 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 Center; or
- (B) in the case of euro, a TARGET Business Day; and
- (C) in the case of any currency, a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the Business Center(s) as set forth in the Final Terms.

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

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

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

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

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System 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 of such Note as determined in accordance with Condition 6(d)(i)(C). Where a Note is to be redeemed on its Maturity Date, any overdue principal of such Note shall bear interest at a rate per annum (expressed as a percentage) equal to the 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.

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 on the applicable Maturity Date 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 unmaturing Coupons and unexchanged Talons relating to them) in the open market or otherwise, provided that in any such case such purchase or purchases are in compliance with all relevant laws, regulations and directives. The Notes so purchased, while held by or on behalf of the Issuer or any of its Subsidiaries, shall not entitle the holder to vote at any meetings of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9, 11 and 12.

(c) *Redemption for Taxation Reasons:* Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of a Note the interest basis for which is specified on such Note as Fixed Rate or Zero Coupon) or on any Specified Interest Payment Date (in the case of a Note the interest basis for which is specified on such Note as Floating Rate), on giving not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 17 (which notice shall be irrevocable), at their Early Redemption Amount (as defined in the Final Terms), (together with interest accrued to the date fixed for redemption) or (in the case of Notes the interest basis for which is specified on such Note as Zero Coupon) at their Amortized Face Amount (as determined in accordance with Condition 6(d)(i)(C)), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 in excess of the additional amounts which would be payable in respect of deductions or withholdings made at the rate of the Original Withholding Level, if any, specified on such Notes as a result of (I) in the case of notes issued by the Bank acting through its head office, any change in, or amendment to, the laws or regulations of Brazil or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date in respect of the relevant Series, and (II) in the case of Notes issued by the Bank acting through its Cayman Islands Branch, any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date in respect of the relevant Series, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of such Notes were 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 authorized officers or attorneys 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. Upon the expiring of any such notice as is referred to in this Condition 6(c), the Issuer

shall be bound to redeem the Notes in accordance with this Condition 6(c).

(d) *Early Redemption:*

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

(A) The amount payable in respect of any Note upon redemption of such 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 Note unless otherwise specified on such Note.

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

(C) If the amount payable in respect of any Note upon redemption of such 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 Note as defined in Condition 6(d)(i)(B), except that Condition 6 shall have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortized Face Amount in accordance with this Condition 6(d)(i)(C) will continue to be made (both before and after judgment) until the Relevant Date unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the nominal amount of such Note together with any interest which may accrue on such Note in accordance with Condition 5(IV).

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

(e) *Redemption at the option of the Issuer (Call option):* 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 (and, if such Notes are listed on an Exchange, to the Exchange) irrevocable notice in accordance with Condition 17 of not less than 30 nor more than 60 days (or such other notice period as specified on such Note) redeem or procure the redemption or purchase of 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 or purchase 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 or purchase, 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 or Notes at the Optional Redemption Amount, together with an amount equal to interest accrued to (but excluding) the date fixed for

redemption or purchase. All Notes in respect of which any such notice is given shall be redeemed or purchased 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 or purchased at any time, the Notes to be redeemed or purchased shall be determined by the Registrar following 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 or purchased, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws, clearing system and Exchange requirements.

(f) *Redemption 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 or (at the option of the Issuer) procure the purchase of 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 or purchase 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 or purchase, 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 or Notes at the Optional Redemption Amount, together with an amount equal to interest accrued to (but excluding) the date fixed for redemption or purchase. 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 30 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 (and, if such Notes are listed on an Exchange, to the Exchange) in accordance with Condition 17.

(g) *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(g) 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, by, and at the specified office of, any Paying Agent outside the United States and its possessions:

(1) in respect of payments denominated in a Specified Currency (or, if different, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be) other than U.S. dollars, at the option of the holder either by a check in such Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be drawn on, or by transfer to an account in such Specified Currency, Specified Principal Payment Currency or

Specified Interest Payment Currency, as the case may be, maintained by the payee with a bank in the Relevant Financial Center of such Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be, or in the case of euro, in a city in which banks have access to the TARGET System;

- (2) in respect of payments denominated in U.S. dollars, subject to Condition 7(a)(ii), at the option of the holder either by a U.S. dollar check drawn on a bank in New York City or by transfer to a U.S. dollar account maintained by the payee with a bank outside the United States; or
- (3) as may otherwise be specified on such Notes as an Alternative Payment Mechanism.

(ii) Payments in the United States

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

(iii) Payments on Business Days

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

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

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

(b) *Registered Notes:*

(i) *Payments of Principal and Interest*

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

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

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

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

(ii) *Payment Initiation*

Where payment is to be made by transfer to an account in the relevant Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be, 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 check, the check will be mailed on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Definitive Registered Note has not been surrendered at the specified office of any Transfer Agent, on a day on which the Principal Paying Agent is open for business and on which the relevant Definitive Registered Note is surrendered.

(iii) Payments Through The Depository Trust Company

Registered Notes, if so specified on them, will be issued in the form of one or more Definitive Registered Notes registered in the name of, or the name of a nominee for, The Depository Trust Company (“DTC”). Payments of principal and interest in respect of Registered Notes denominated in U.S. dollars will be made in accordance with Conditions 7(b)(i) and (ii). Payments of principal and interest in respect of Registered Notes registered in the name of, or in the name of a nominee for, DTC and denominated in a Specified Currency or in respect of which payments are to be made in a Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be, other than U.S. dollars will be made or procured to be made by the Principal Paying Agent in the relevant Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be, in accordance with the following provisions. The amounts in such Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be, payable by the Principal Paying Agent or its agent to DTC with respect to Registered Notes held by DTC or its nominee will be received from the Issuer by the Principal Paying Agent who will make payments in such Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be, by wire transfer of same day funds to the designated bank account in such Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be, 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 fifth DTC business day after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least 10 DTC business days prior to the relevant payment date, to receive that payment in such Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be. The Principal Paying Agent, after the Exchange Agent has converted amounts in such Specified Currency, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be, 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, Specified Principal Payment Currency or Specified Interest Payment Currency, as the case may be. 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 check 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 Principal Paying Agent, 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), 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 in respect of each Series of Notes, (ii) a London Paying Agent, (iii) a Paying Agent, a Registrar and a Transfer Agent in New York City, (iv) a Paying Agent and a Transfer Agent having a specified office in a European city which, so long as the Exchange on which the Notes are listed is the Official List of the Luxembourg Stock Exchange (Euro MTF market), shall be that of such stock exchange, (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 European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, (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 be given to the Noteholders in accordance with Condition 17 as soon as reasonably practicable.

(e) *Unmatured Coupons and Unexchanged Talons:*

- (i) Bearer Notes the interest basis for which is specified on such Notes as being Fixed Rate, other than Notes which are specified to be Long Maturity Notes (being Notes whose nominal amount is less than the aggregate interest payable thereon on the relevant dates for payment of interest under Condition 5(I)(a)), should be surrendered for payment of principal together with all unexpired Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment on such Note. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10). If the date for payment of principal is any date other than a date for payment of interest, the accrued interest on such principal shall be paid only upon presentation of the relevant Note.
- (ii) If so specified on a Bearer Note, upon the due date for redemption of any Bearer Note either the interest basis for which is specified on such Note as being Floating Rate at any time or which is a Long Maturity Note, unexpired 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 by the Noteholder as the Issuer may require.

(f) *Talons:* Except where such Talon has become void pursuant to Condition 7(e)(iii), on or after the Interest Payment Date or, as the case may be, the Specified Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the London Paying Agent in exchange for a further Coupon sheet (but excluding any Coupons which may have become void pursuant to Condition 10).

8. **Taxation**

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

- (i) in the case of Bearer Notes or Coupons:
 - (a) to a holder (or to a third party on behalf of a holder) where such holder is liable to such Taxes in respect of such Bearer Note or Coupon by reason of it having some connection with Brazil or such other jurisdiction to which the Issuer may be subject other than the mere holding of such Bearer Note or Coupon, the receipt of the relevant payment in respect thereof or the enforcement of rights with respect to the Notes; or
 - (b) presented or surrendered 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 or surrendering the same for payment on the last day of such period of 30 days; or
 - (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (d) presented for payment by or on behalf of a Noteholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

- (ii) in the case of Registered Notes:
 - (a) to a holder (or to a third party on behalf of a holder) where such holder is liable to such Taxes in respect of such Registered Note by reason of it having some connection with Brazil or such other jurisdiction to which the Issuer may be subject, other than the mere holding of such Registered Note, the receipt of the relevant payment in respect thereof or the enforcement of rights with respect to the Notes; or
 - (b) if the Definitive Registered Note in respect of such Registered Note is required to be surrendered and such Definitive Registered Note is surrendered more than 30 days after the Relevant Date, except to the extent that the holder thereof would have been entitled to receive additional amounts on presenting the same for payment on the last day of such period of 30 days; or
 - (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

As used in these Conditions, “Relevant Date” in respect of any Note or Coupon means the date on which payment in respect thereof first becomes due or (if the full amount of the money payable has not been received by the Trustee or the Principal Paying Agent on or prior to such due date) the date on which notice is duly given to the Noteholders in accordance with Condition 17 that such moneys have been so received and are available for payment. References in these Conditions to “principal” shall be deemed to include “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 following events occurs the Trustee at its discretion may in respect of the Notes of any Series, and if so requested by holders of at least one third in nominal amount of the Notes of such Series then outstanding or if so directed by an Extraordinary Resolution of Noteholders of such Series shall (subject in each case to being indemnified and/or secured to its 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 (if any) to the date of redemption or, in relation to Zero Coupon Notes, the Amortized Face Amount of such Notes:

(a) *Non-payment:* Default is made for a period of three days in the payment of principal on any of the Notes or for a period of seven days in the payment of interest represented by the Notes or Coupons; or

(b) *Breach of other obligations:* The Issuer does not perform or comply with any one or more of its other obligations under the Notes of such Series or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 60 days after written notice specifying such default shall have been given to the Issuer by the Trustee. Such notice shall require the default to be remedied and shall state that such notice is a “Notice of Default”; or

(c) *Cross default:* (i) any other present or future Indebtedness of the Issuer or any Significant Subsidiary becomes (or is declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer by reason of the occurrence of an event of default described in a document evidencing such

Indebtedness and after the expiration of any applicable grace period, or (ii) any such Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any Significant Subsidiary fails to pay when due any amount payable by it under any present or future Guarantee in respect of its Indebtedness, provided that in each case mentioned above in this Condition 9(c), the aggregate amount of the relevant Indebtedness and Guarantees in respect of Indebtedness in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds US\$50,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9 operates); or

(d) *Enforcement proceedings:* A distress, attachment (other than a Penhora), execution or other legal process is levied, enforced or sued out on or against all or a material part of the property of the Issuer (taken as a whole with its Significant Subsidiaries) and is not discharged or stayed within 30 days after notice thereof has been received by the Issuer; or

(e) *Security enforced:* Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Significant Subsidiary and securing an amount which equals or exceeds US\$50,000,000 or its equivalent (as determined in the manner provided in Condition 9(c)) becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and such step is not discharged or stayed within 30 days after notice thereof has been received by the Issuer; or

(f) *Insolvency:* The Issuer or any Significant Subsidiary is declared insolvent or bankrupt or unable to pay its debts or stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts; or

(g) *Moratorium:* The Issuer or any Significant Subsidiary makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), makes a general assignment or an arrangement or composition with or for the benefit of creditors in respect of its debts generally or a moratorium is agreed to or declared by the Issuer or any Significant Subsidiary in respect of or affecting all or any part of (or of a particular type of) its debts; or

(h) *Winding up:* An order is made or an effective resolution passed for the intervention in, liquidation, winding up or dissolution of the Issuer or any Significant Subsidiary, or the Issuer or any Significant Subsidiary ceases to carry on all or (in the opinion of the Trustee) substantially all of its business or operations except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger, consolidation or spin-off on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders or where the surviving entity is the Issuer or a Significant Subsidiary; or

(i) *Analogous events:* Any event occurs which under the laws of the jurisdictions of the Issuer or any Significant Subsidiary has an analogous effect to any of the events referred to in Conditions 9(d) to (h),

provided that, in the case of paragraphs (b) and (d) to (h), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

For the purpose of these Conditions:

“Fund” means any investment vehicle, hedge fund, mutual fund, fund of funds, private equity fund, other alternative investment fund or similar person, but which excludes, in each case, any Portfolio Company.

“Managed Funds” means any Fund, sponsored, advised or subadvised by the Bank, its respective Subsidiaries and/or for which any of them act as a general partner, investment manager, investment adviser, managing member, gestor or in a similar management advisory capacity, other than any such Fund of which the Bank, or any of its respective Subsidiaries owns, directly or indirectly, a majority of the economic interests of such Fund.

“Portfolio Companies” means, with respect to any Managed Fund, the entities in which such Managed Fund has acquired, directly or indirectly, equity securities or any other securities (including debt securities).

“Subsidiary” of any company or corporation means, at any particular time, any company or corporation:

- (i) more than 50% of the issued share equity capital of which, or more than 50% 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,

(in each case) provided, however, that for the purposes of these Conditions, neither (i) any Managed Fund, nor (ii) any company or corporation which does not conduct financial services, investment services or banking business as its principal business, nor (iii) any company or corporation which the Trustee and the Issuer have agreed to exclude from this definition shall be deemed to be a Subsidiary of the Issuer or any of its Subsidiaries.

“Significant Subsidiary” means any Subsidiary of the Issuer the total assets of which exceeded 10% of the consolidated total assets of the Issuer and its consolidated subsidiaries as of the end of the most recent fiscal year.

10. **Prescription**

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

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

(a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders of a Series to consider any matter affecting their interests, including modification by Extraordinary Resolution of the Notes of such Series (including these Conditions insofar as the same may apply to such Notes). Such a meeting may be convened by the Issuer or the Trustee, and the Trustee (subject to being indemnified and/or secured to its satisfaction against all costs and expenses thereby occasioned) shall convene such a meeting upon written request of Noteholders holding not less than 10% in nominal amount of the Notes of the relevant Series for the time being outstanding. The quorum for any meeting to consider an Extraordinary Resolution will be two or more persons holding or representing in aggregate more than 50% in nominal amount of the Notes of the relevant Series for the time being outstanding, or at any adjourned meeting two or more persons holding or representing holders of Notes of the relevant Series whatever the nominal amount of the Notes of the relevant Series held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes of any Series or any date for payment of interest thereon, (ii) to reduce or cancel the nominal amount, Final Redemption Amount, Optional Redemption Amount or Early Redemption Amount (if any) of the Notes of any Series, (iii) to reduce the rate or rates of interest in respect of the Notes of any Series or to vary the method or basis of calculating the rate or rates or amount of interest, (iv) if there is specified on the Notes of any Series a Minimum Rate of Interest and/or a Maximum Rate of Interest, to reduce such Minimum Rate of Interest and/or such Maximum Rate of Interest, (v) to change the method of calculating the 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%, or at any adjourned meeting not less than 25%, in nominal amount of the Notes of the relevant Series for the time being outstanding. An “Extraordinary Resolution” is defined in the Trust Deed to mean a resolution passed at a meeting of Noteholders duly convened and held in accordance

with the provisions of the Trust Deed by a majority of at least 75% of the votes cast. A written resolution of holders of not less than 75% 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 17 as soon as practicable.

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

(d) *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 one-third in nominal amount of the Notes of such Series outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee and its parent, subsidiaries and affiliates are entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. Under the Trust Deed, the Trustee is entitled to be paid its costs and expenses in priority to the claims of the Noteholders and Couponholders.

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 London Paying Agent (in the case of Bearer Notes, Coupons and Talons) or a Transfer Agent (in the case of Registered Notes) subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the taxes and expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes, Coupons, Talons or Registered Notes must be surrendered before replacements will be issued.

15. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes of any Series in all respects (or in all respects except for the first payment of interest on them) so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes of any Series), provided, however, that unless such further securities are issued under a separate CUSIP number or ISIN, such further securities will be fungible with the original securities for U.S. federal income tax purposes. References in these Conditions to the Notes of any Series include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes of such Series. Any further securities forming a single series with the outstanding securities of any series (including the Notes of any Series) constituted under the Trust Deed or any deed supplemental to it shall be constituted under the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders of a Series and the holders of securities of other series (including the Notes of any other Series) where the Trustee so decides.

16. Agents

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

17. Notices

Notices to holders of Registered Notes will be mailed to them at their respective addresses in the Register and shall be published (so long as the Notes are listed on Luxembourg Stock Exchange and traded on the Euro MTF market) on the website of the Luxembourg Stock Exchange designated for such purposes. 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 or, if any such publication is not practicable, in another leading daily English language newspaper having general circulation in Europe, and (so long as the Notes are listed on Luxembourg Stock Exchange and traded on the Euro MTF market) in a daily newspaper of general circulation in Luxembourg or on the website of the Luxembourg Stock Exchange at www.bourse.lu. It is expected that such publication will be made in the Financial Times in London. Notices will, if published more than once in the same manner, be deemed to have been given on the date of the first publication as provided above and will, if published more than once on different dates, be deemed to have been given on the date of the last publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice to the holders of Bearer Notes in accordance with this Condition 17.

18. 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.

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

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

FORM OF THE FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated *[date]*

Banco BTG Pactual S.A.

(company incorporated under the laws of the Federative Republic of Brazil)

US\$[3,000,000,000]

Global Medium-Term Note Programme

Series No:

[TITLE OF NOTES] DUE

Issue price:

[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 Offering Memorandum dated *[date]* [and the supplemental Offering Memorandum dated *[date]*]. These Final Terms must be read in conjunction with such Offering Memorandum [as so supplemented]. The Offering Memorandum [and the supplemental Offering Memorandum dated *[date]*] [is][are] available for viewing at the registered office of the Issuer.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under Offering Memorandum with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Offering Memorandum dated *[original date]*. These Final Terms contains the final terms of the Notes and must be read in conjunction with the Offering Memorandum dated *[current date]* [and the supplemental Offering Memorandum dated *[date]*], save in respect of the Conditions which are extracted from the Offering Memorandum dated *[original date]* and are attached hereto.]

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES THE NOTES MAY NOT BE [OFFERED OR SOLD/OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED] 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”)). EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. 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 IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO PERSONS WHO ARE BOTH “QUALIFIED INSTITUTIONAL BUYERS” (AS DEFINED IN RULE 144A (“QIBS”)), AND “QUALIFIED PURCHASERS” (AS DEFINED IN SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT (“QPS”))] [AND FOR LISTING OF THE NOTES ON THE OFFICIAL LIST OF THE LUXEMBOURG STOCK EXCHANGE (FOR TRADING ON THE EURO MTF MARKET)]. [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 AND THE EXEMPTION FROM THE PROVISIONS OF THE INVESTMENT COMPANY ACT PROVIDED BY SECTION 3(C)(7) OF

THE INVESTMENT COMPANY ACT]. 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 OFFERING MEMORANDUM, SEE “PLAN OF DISTRIBUTION” AND “NOTICE TO INVESTORS” CONTAINED IN THE OFFERING MEMORANDUM.

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

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

[Include whichever of the following apply or specify as “Not Applicable” (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 BTG Pactual S.A.[, acting through its Cayman Islands 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. [(i)] Issue Price: [] % of the Aggregate Nominal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]
- [(ii)] Net proceeds: [] (*Required only for listed issues*)
6. Specified Denominations (Condition 1(b)): []*
7. (i) Issue Date (Condition 5(III)): []
- (ii) Interest Commencement Date: []
8. Maturity Date (Condition 6(a)): [*Specify date or (for Floating Rate Notes) Specified Interest Payment Date falling in or nearest to 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)
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 (Condition 6(e) and (f)):
 [Noteholder Put]
 [Issuer Call]
 [(further particulars specified below)]
13. Status of the Notes (Condition 3): [Senior] [*Specify status if different from Condition 3*]
14. Listing
 [Application has been made for the Notes to be listed on the Luxembourg Stock Exchange and traded on the Euro MTF market/Other (*specify*)/None]
15. Method of distribution: [Syndicated/Non-syndicated]

* Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions (Condition 5(I)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate(s) of Interest: [] % per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Center(s) for the definition of "Relevant Business Day"]/not adjusted]
- (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)): [] in each year - [insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon only to be completed for an issue where day count fraction is Actual/Actual-ISMA]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
17. Floating Rate Note Provisions (Condition 5(II)):
- [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (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) Business Center(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/Not Applicable]
• Interest Determination Date(s) (Condition 5(III)):	[]
• Primary Source for Floating Rate:	<i>[Specify relevant screen page or "Reference Banks"]</i>
• Reference Banks (if Primary Source is "Reference Banks"):	[Specify four]
• Relevant Banking Center:	[Specify]
• Benchmark and Reference Rate(s):	[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark and whether bid, offer or mean]
(vii) ISDA Determination (Condition 5(II)(b)(iv)):	[Applicable/Not Applicable]
• Floating Rate Option:	[]
• Designated Maturity:	[]
• Reset Date:	[]
• ISDA Definitions (if different from those set out in the Conditions):	[]
(viii) Margin(s):	[+/-][]% per annum
(ix) Minimum Rate of Interest:	[]% per annum
(x) (Maximum Rate of Interest:	[]% per annum
(xi) Day Count Fraction (Condition 5(III)):	[]
(xii) Rate Multiplier:	[]
(xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions (Condition 5(II)(b)):	[]
(xiv) Relevant Financial Center:	[]
18. Zero Coupon Note Provisions (Conditions 5(IV) and 6(d)):	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub- paragraphs of this paragraph)</i>
(i) Amortization Yield:	[]% per annum
(ii) Reference Price:	[]
(iii) Basis:	[Straightline/Compounded at <i>[specify]</i> interval]
(iv) Day Count Fraction (Condition 5(III)):	[]

- (v) Any other formula/basis of determining amount payable: ☐
19. Index Linked Interest Note Provisions: ☐ [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs 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) Business Center(s) (Condition 5(III)): ☐
- (vii) Minimum Rate of Interest: ☐ [% per annum]
- (viii) Maximum Rate of Interest: ☐ [% per annum]
- (ix) Day Count Fraction (Condition 5(III)): ☐
20. Dual Currency Note Provisions: ☐ [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs 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

- | | | |
|-----|--|--|
| 21. | Call Option (Condition 6(e)): | [Applicable/Not Applicable]
<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| | (i) Optional Redemption Date(s): | [] |
| | (ii) Optional Redemption Amounts(s) of each Note and method, if any, of calculation of such amount(s): | [] per Note of [] Specified Denomination |
| | (iii) If redeemable in part: | |
| | (a) Minimum nominal amount to be redeemed: | [] |
| | (b) Maximum nominal amount to be redeemed: | [] |
| | (iv) Notice period* | [] |
| 22. | Put Option (Condition 6(f)): | [Applicable/Not Applicable]
<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| | (i) Optional Redemption Date(s): | [] |
| | (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): | [] per Note of [] Specified Denomination |
| | (iii) Description of any other Noteholders' option: | [] |
| | (iv) Deposit period (if other than as set out in the Conditions): | [] |
| | (v) Notice period*: | [] |
| 23. | Final Redemption Amount of each Note: | [[] per Note of [] Specified Denomination/Other/See Appendix] |
| | (i) Alternative Payment Mechanism (Condition 7(a) and (b)): | [] |
| | (ii) Long Maturity Note (Condition 7(e)): | [Applicable/Not Applicable] |

* If setting notice periods which are different to those provided in the terms and conditions, issuers are advised to consider the practicalities of distribution of information through intermediaries, for example clearing systems and custodians, as well as any other notice requirements which may apply, for example as between the issuer and the principal paying agent, or trustee.

24. Early Redemption Amount:
- (i) Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 6(c)) or on an Event of Default (Condition 9) and/or the method of calculating the same (if required or if different from that set out in the Conditions): []
 - (ii) Original Withholding Level (Condition 6(c)): []
 - (iii) Unmatured Coupons to become void (Condition 7(e)): [Yes/No/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. 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) Exchange Date in respect of Temporary Global Note: [Not Applicable/specify date]
 - (iii) Applicable TEFRA exemption: [C Rules/D Rules/Not Applicable]
- Registered Notes
- (iv) DTC Global Notes, European Global Notes or individual Definitive Registered Notes: [DTC Restricted Global Note and/or DTC Unrestricted Global Note/European Unrestricted Global Note available on Issue Date] [European Restricted Global Note and/or European Unrestricted Global Note available on Issue Date]
[Individual Definitive Registered Notes available on Issue Date]
26. Financial Center(s) (Condition 7(a)(iii)) or other special provisions relating to payment dates: [Not Applicable /Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 16(ii), 17(iii) and 19(vi) relates]
27. Talons for future Coupons to be attached to definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]

- | | | |
|-----|---|---|
| 28. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable /give details]
(If applicable, complete terms <i>MUST</i> be set out in these Final Terms) |
| 29. | Details relating to Installment Notes: | [Not Applicable /give details]
(If applicable, complete terms <i>MUST</i> be set out in these Final Terms) |
| 30. | Redenomination, renominialization and reconventioning provisions: | [Not Applicable /The provisions annexed to these Final Terms apply] |
| 31. | Consolidation provisions (Condition 15): | [Not Applicable /The provisions annexed to these Final Terms apply] |
| 32. | Other terms or special conditions: | [Not Applicable /give details] |

DISTRIBUTION

- | | | |
|-----|---------------------------------------|--------------------------------|
| 33. | (i) If syndicated, names of Managers: | [Not Applicable /give details] |
| | (ii) Stabilizing Manager (if any): | [Not Applicable /give details] |
| | (iii) Commissions and Concessions: | [] |
| 34. | If non-syndicated, name of Dealer: | [Not Applicable /give details] |
| 35. | Additional selling restrictions: | [Not Applicable /give details] |

OPERATIONAL INFORMATION

- | | | |
|-----|---|--|
| 36. | (i) ISIN: | [] |
| | (ii) CUSIP: | |
| | (iii) CINS: | [] |
| | (iv) Other: | [Euro MTF market of the Luxembourg Stock Exchange Securities Number: [To be provided]] |
| 37. | Common Code: | [] |
| 38. | Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and DTC and the relevant identification number(s): | [Not Applicable/give name(s) and number(s)] |
| 39. | Delivery: | Delivery [against/free of] payment |
| 40. | Principal Paying Agent: | [Deutsche Bank AG, London Branch/give details] |
| 41. | Discharge and indemnity provision (Condition 7(g)): | [Applicable / Not Applicable] |
| 42. | Additional Agent(s) (if any): | [] |

[LISTING APPLICATION]

These Final Terms comprise the final terms required to list the issue of Notes described herein pursuant to the US\$[3,000,000,000] Global Medium Term Note Programme of Banco BTG Pactual S.A.]

[STABILIZATION]

In connection with the issue of the Notes, [enter name of stabilizing manager) (the “Stabilizing Manager”) (or persons acting on behalf of any Stabilizing Manager) 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 (or persons acting on behalf of the 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 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 Notes and 60 days after the date of the allotment of the Notes.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms which, when read together with the Offering Memorandum referred to above, contain all information that is material in the context of the Notes.

[MATERIAL ADVERSE CHANGE STATEMENT]

Save as disclosed in the Offering Memorandum and in these final terms, 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 prospects of the Issuer since [insert date of last published audited accounts].]

GOVERNING LAW AND JURISDICTION

The Notes and all matters arising from or connected with the Notes are governed by, and shall be construed in accordance with, English law. The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Coupons, the Talons or the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with the Notes, the Coupons, the Talons or the Trust Deed (“Proceedings”) may be brought in such courts.

Signed on behalf of the Issuer:

By: _____
Duly authorized signatory

By: _____
Duly authorized signatory

ISSUER

Acting Through its Principal Office in Brazil

Banco BTG Pactual S.A.

Praia de Botafogo, 501, 5^o e 6^o andares
Rio de Janeiro, RJ-22250-040
Brazil

Acting Through its Cayman Islands Branch

Banco BTG Pactual S.A.

PO Box 705 – Butterfield House
68 Fort Street
George Town KY1-1107
Cayman Islands

TRUSTEE

Deutsche Trustee Company Limited

Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

**PRINCIPAL PAYING AGENT, LONDON PAYING AGENT, TRANSFER AGENT AND
CALCULATION AGENT**

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

**PAYING AGENT, U.S. REGISTRAR AND
TRANSFER AGENT**

Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
MS; NYC60-2710
New York, NY 10005
USA

**PAYING AGENT, EUROPEAN REGISTRAR
AND
TRANSFER AGENT**

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

FORM OF THE NOTES; BOOK ENTRY AND TRANSFER

Bearer Notes

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

Each Temporary Global Note, Permanent Global Note and any Definitive Note, Talon and Coupon will bear the following legend:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE.”

The sections of the U.S. Internal Revenue Code referred to in the legend provides that a United States taxpayer, with certain exceptions, will not be permitted to deduct any loss, and will not be eligible for capital gains treatment with respect to any gain, realized on any sale, exchange or redemption of Bearer Notes or any related Coupons.

Summary of Provisions Relating to Bearer Notes while in Global Form

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. The following is a summary of certain of those provisions:

(a) *Exchange:* A Temporary Global Note is exchangeable in whole or in part for interests in the Permanent Global Note representing Bearer Notes not earlier than 40 days after the later of the commencement of the offering of the relevant Tranche and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. A Permanent Global Note is exchangeable in whole but not in part (free of charge to the holder) for Definitive Notes if the Permanent Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by such holder giving notice to the London Issuing and Paying Agent. If so specified in the relevant Final Terms, a Temporary Global Note or a Permanent Global Note is exchangeable in whole or in part for Registered Notes in accordance with its terms.

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

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

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

(c) *Notices:* So long as the Bearer Notes are represented by a Global Note and such 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. Notices to the holders of Bearer Notes will be valid if published in a daily newspaper having general circulation in London or, if any such publication is not practicable, in another leading daily English language newspaper having general circulation in Europe. It is expected that such publication will be made in the *Financial Times* in London. In addition, notices will be published in a daily newspaper of general circulation in Luxembourg or on the website of the Luxembourg Stock Exchange at www.bourse.lu (so long as the Notes are listed on Luxembourg Stock Exchange and traded on the Euro MTF market). Notices will, if published more than once in the same manner, be deemed to have been given on the date of the first publication and will, if published more than once in a different manner, be deemed to have been given on the date of the last publication.

(d) *Prescription:* Claims against the relevant Issuer in respect of principal and interest in respect of a Global Note will become prescribed unless such 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 the Conditions).

(e) *Meetings:* The holder of a Global Note will 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 such Global Note may be exchanged.

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

(g) *Call option:* The Issuer's call option in Condition 6(e) (*Redemption at the option of the Issuer*) may be exercised by the relevant Issuer giving notice to the Noteholders in accordance with Condition 6(e) (*Redemption at the option of the Issuer*) and such notice shall be required to contain the serial numbers of Notes drawn for redemption in the case of a partial redemption of Notes.

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

Registered Notes

Registered Notes of each Tranche of a Series which are sold in an "offshore transaction" within the meaning of Regulation S ("Unrestricted Notes") will initially be represented by interests in either a European Unrestricted Global Note or a DTC Unrestricted Global Note, in each case without interest coupons and (i) in the case of a European Unrestricted Global Note, deposited with a common depositary for, and registered in the name of a nominee of a common depositary for, Clearstream, Luxembourg and Euroclear on its Issue Date; or (ii) in the case of a DTC Unrestricted Global Note, deposited with a custodian for, and registered in the name of a nominee of, DTC on its Issue Date.

Registered Notes of such Tranche resold pursuant to Rule 144A (“Restricted Notes”) will initially be represented by either a European Restricted Global Note or a DTC Restricted Global Note, in each case without interest coupons and (i) in the case of a European Restricted Global Note, deposited with a common depositary for, and registered in the name of a nominee of a common depositary for, Clearstream, Luxembourg and Euroclear on its Issue Date; or (ii) in the case of a DTC Restricted Global Note, deposited with a custodian for, and registered in the name of a nominee of, DTC on its Issue Date. Any DTC Restricted Global Note will bear a legend applicable to purchasers who purchase the Registered Notes pursuant to Rule 144A as described under “Transfer Restrictions.”

U.S. Dollar Equivalent

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

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

Book-Entry Ownership

Bearer Notes

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

Registered Notes

References below to “Registrar” shall mean, in respect of any DTC Global Note, the U.S. Registrar and, in respect of any European Global Note, the European Registrar.

The Issuer will make applications to Clearstream, Luxembourg and Euroclear for acceptance in their respective book-entry systems in respect of the Notes to be represented by a European Unrestricted Global Note or a European Restricted Global Note. Each such Global Note will have an ISIN number and a Common Code.

The Issuer and the Dealer or Dealer with respect to a Tranche of Notes will make application to DTC for acceptance in its book entry settlement system of the Notes represented by each DTC Restricted Global Note or DTC Unrestricted Global Note. Each DTC Restricted Global Note will have a CUSIP number and each DTC Unrestricted Global Note will have a CINS number. Each DTC Restricted Global

Note and each European Restricted Global Note will be subject to restrictions on transfer contained in a legend appearing on the front of each such Note, as set out under “Transfer Restrictions.” In certain circumstances, as described below in “Transfers of Registered Notes,” transfers of interests in a DTC Restricted Global Note or a European Restricted Global Note may be made as a result of which such legend is no longer applicable.

The custodian with whom the DTC Restricted Global Note or DTC Unrestricted Global Note is deposited (the “Custodian”) and DTC will electronically record the nominal amount of the Notes held within the DTC system. In the case of Notes represented by a DTC Unrestricted Global Note, until the expiration of 40 days after the later of the commencement of the offering and the Issue Date of a Tranche of Notes, investors in Notes of such Series may hold their interests in a DTC Unrestricted Global Note only through Clearstream, Luxembourg or Euroclear. Thereafter, investors may additionally hold such interests directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in DTC. Clearstream, Luxembourg and Euroclear will hold interests in a DTC Unrestricted Global Note on behalf of their accountholders through customers’ securities accounts in Clearstream, Luxembourg’s or Euroclear’s respective names on the books of their respective depositaries, which in turn will hold such interests in a DTC Unrestricted Global Note in customers’ securities accounts in the depositaries’ names on the books of DTC. Deutsche Bank AG, London Branch will initially act as depositary for Euroclear and Deutsche Bank AG, London Branch will initially act as depositary for Clearstream, Luxembourg. Investors may hold their interests in a DTC Restricted Global Note directly through DTC if they are participants in the DTC system, or indirectly through organizations which are participants in such system. Investors in Notes represented by a European Restricted Global Note or a European Unrestricted Global Note may hold their interests in such Note only through Clearstream, Luxembourg or Euroclear.

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

All Registered Notes will initially be in the form of: (i) a DTC Restricted Global Note and either a DTC Unrestricted Global Note or a European Unrestricted Global Note; or (ii) a European Restricted Global Note and/or a European Unrestricted Global Note. Individual definitive Registered Notes will only be available, in the case of Unrestricted Notes, in amounts specified in the applicable Final Terms and, in the case of Restricted Notes, in amounts of US\$200,000 (or its equivalent in other currencies rounded upwards as agreed between the Issuer and the relevant Dealer(s)), or higher integral multiples of US\$1,000, in certain limited circumstances described below.

Individual Definitive Registered Notes

Registration of title to Registered Notes in a name other than a depositary or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will not be permitted unless: (i) in the case of DTC Restricted Global Notes and DTC Unrestricted Global Notes, DTC notifies the Issuer that it is no longer willing or able to properly discharge its responsibilities as depositary with respect to the DTC Restricted Global Note and DTC Unrestricted Global Notes, or ceases to be a “clearing agency” registered under the Exchange Act, or is at any time no longer eligible to act as such and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; (ii) in the

case of European Unrestricted Global Notes and European Restricted Global Notes, Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or (iii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of the Noteholders under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes. In such circumstances, the Issuer will cause sufficient individual definitive Registered Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholder(s). A person having an interest in a Registered Global Note must provide the Registrar with:

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

Transfers of Registered Notes

Transfers of interests in Registered Global Notes within DTC, Clearstream, Luxembourg and Euroclear will be in accordance with the usual rules and operating procedures of the relevant clearing system, in the case of DTC Restricted Global Notes and European Restricted Global Notes, those applicable to 144A/3(c)(7) securities. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a DTC Restricted Global Note to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a DTC Restricted Global Note or DTC Unrestricted Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Until the expiration of 40 days after the later of the commencement of the offering of a Series of Notes and the Issue Date therefor, beneficial interests in a DTC Unrestricted Global Note for such Series may be held only through Clearstream, Luxembourg or Euroclear. Transfers may be made at any time by a holder of an interest in a DTC Unrestricted Global Note to a transferee who wishes to take delivery of such interest through a DTC Restricted Global Note *provided* that any such transfer made on or prior to the expiration of the distribution compliance period (as referred to in “Subscription and Sale—United States of America”) relating to the Notes represented by such DTC Unrestricted Global Note will only be made upon receipt by the Registrar or any Transfer Agent of a written certificate from the transferor of such interest to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB (as defined in Rule 144A) that is also a QP (as defined in Section 2(a)(51) of the Investment Company Act) in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities law of any state of the United States or any other jurisdiction. Thereafter, the Registrar will make the appropriate entries in the Register. Transfers at any time by a holder of any interest in the DTC Restricted Global Note to a transferee who takes delivery of such interest through a DTC Unrestricted Global Note will only be made upon delivery to the Registrar or any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in the relevant DTC Global Notes.

Beneficial interests in a European Unrestricted Global Note may be held only through Clearstream, Luxembourg or Euroclear. Transfers may be made at any time by a holder of an interest in a DTC Unrestricted Global Note or a European Unrestricted Global Note to a transferee who wishes to take delivery of such interest through the DTC Restricted Global Note or the European Restricted Global Note

(as the case may be) for the same Series of Notes *provided* that any such transfer made on or prior to the expiration of the distribution compliance period (as referred to in “Subscription and Sale—United States of America”) relating to the Notes represented by such DTC Unrestricted Global Note or European Unrestricted Global Note (as the case may be) will only be made upon receipt by the Registrar or any Transfer Agent of a written certificate from the transferor of such interest to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB (as defined in Rule 144A) that is also a QP (as defined in Section 2(a)(51) of the Investment Company Act) in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities law of any state of the United States or any other jurisdiction. Any such transfer made thereafter of the Notes represented by such DTC Unrestricted Global Note or European Unrestricted Global Note (as the case may be) will only be made upon request through (i) Clearstream, Luxembourg or Euroclear by the holder of an interest in the European Unrestricted Global Note or (ii) through DTC by the holder of an interest in the DTC Unrestricted Global Note, to the Principal Paying Agent and receipt by the Principal Paying Agent of details of that account at DTC to be credited with the relevant interest in the DTC Restricted Global Note or details of the account at Euroclear or Clearstream, Luxembourg to be credited with the relevant interest in the European Restricted Global Note, as the case may be. Transfers at any time by a holder of any interest in the DTC Restricted Global Note or a European Restricted Global Note to a transferee who takes delivery of such interest through a DTC Unrestricted Global Note or a European Unrestricted Global Note will only be made upon delivery to the Registrar or any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at DTC, Euroclear or Clearstream, Luxembourg, as the case may be, to be credited and debited, respectively, with an interest in the relevant global Registered Notes.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under “Transfer Restrictions,” cross market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Principal Paying Agent.

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

Cross market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant global Registered Notes will be effected through the Principal Paying Agent, the Custodian and the Registrar receiving instructions (and where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of: (i) three business days after the trade date for the disposal of the interest in the relevant global Registered Note resulting in such transfer; and (ii) two business days after receipt by the Principal Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

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

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of DTC Restricted Global Notes and DTC Unrestricted Global Notes for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in DTC Restricted Global Notes or DTC Unrestricted Global Notes are credited and only in respect of such portion of the aggregate nominal amount of the relevant DTC Restricted Global Note or DTC Unrestricted Global Note, as to which such participant or

participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant DTC Restricted Global Note or Unrestricted Global Note for exchange for individual definitive Registered Notes (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a “banking organization” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerized book entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the global Registered Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear, or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

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

Pre-issue Trades Settlement

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

TAXATION

PROSPECTIVE PURCHASERS OF THE NOTES OR COUPONS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES OR COUPONS.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the Notes by a non-resident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the Notes.

Prospective purchasers should consult their tax advisors 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.

Prospective purchasers should note that, as to the discussion below, other income tax rates or treatment may be provided for in any applicable tax treaty between Brazil and the country where the relevant holder is domiciled. Prospective purchasers should also note that there is no tax treaty between Brazil and the United States.

This summary does not address any tax issues that may affect solely the Issuers, such as the deductibility of expenses.

As a general rule, non-Brazilian residents are taxed in Brazil only when income is derived from Brazilian sources. The applicability of Brazilian taxes with respect to payments on the Notes will depend on the origin of such payments and the domicile of the recipient of such payments.

Interest Payments Under the Notes

Considering that the Notes may be issued by our Cayman Islands Branch, and based on the position that, as a general rule, the Cayman Islands Branch is considered to be domiciled outside of Brazil for tax purposes, payments of income made to a non-resident holder by the Issuer with respect to notes issued through our Cayman Islands Branch 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. If the Cayman Islands Branch is not successfully qualified as a non-resident of Brazil and the above position does not prevail in the event of a tax dispute, the amounts remitted abroad could be subject to Brazilian withholding income tax at a rate of up to 25%, plus interest and fines, as further explained below.

If the Notes are issued by our principal office in Brazil and the interest payments made under the Notes are also made by our principal office in Brazil, with funds held in Brazil, such interest payments could be subject to income tax in Brazil at a rate of up to 25%, based on the same reasoning explained below.

Interest, fees, commissions (including any original issue discounts and any redemption premiums) and any other income payable by a Brazilian obligor to an individual, entity, trust or organization domiciled outside Brazil with respect to debt obligations derived from the issuance by a Brazilian issuer of international debt securities previously registered with the Central Bank, such as the Notes, is subject to withholding income tax. The rate of withholding income tax is generally 15%, as provided for in Section 10 of the Normative Act No. 252 of December 3, 2002, or the Normative Act No. 252/02. According to

Normative Act 252/02, in the event that the beneficiary of such payments is domiciled in a tax haven jurisdiction (that is deemed to be a jurisdiction which does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20%, or where the laws impose restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the effective beneficiary of the income attributed to non-residents, a “tax haven jurisdiction”), such payments of interest, fees, commissions (including any original issue discount and any redemption premium) and any other income are also subject to withholding income tax in respect of Brazilian income tax at the general rate of 15%. However, it is important to mention that pursuant to Section 8 of Law No. 9,779 of January 19, 1999, if the relevant average term of credit instruments such as the Notes is of less than 96 months, the rate applicable to the beneficiary domiciled in a tax haven jurisdiction is 25%. Accordingly, there is a risk that the tax authorities may change the understanding above and apply the rate of 25% in the event that the beneficiary is domiciled in a tax haven jurisdiction. A lower income tax rate may be applicable by a tax treaty between Brazil and the other country where the recipient of the payment has its domicile.

Law No. 11,727 changed the scope of new transactions that would be subject to Brazilian transfer pricing rules, with the creation of the concept of a privileged tax regime. Pursuant to Law No. 11,727, a jurisdiction will be considered a privileged tax regime if it (i) does not tax income or taxes it at a maximum rate lower than 20%; (ii) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or a said territory or (b) conditioned upon the non-exercise of a substantial economic activity in the country or a said territory; (iii) does not tax or taxes proceeds generated abroad at a maximum rate lower than 20% or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out. Because several Brazilian regulations refer to the concepts defined in the Brazilian transfer pricing rules when referring to tax haven jurisdictions and despite the legal grounds to sustain that the changes discussed in this paragraph should apply exclusively for transfer pricing purposes and thin capitalization rules, there is a risk that a privileged tax regime will be treated similarly to a tax haven jurisdiction, and therefore the concept could be extended to the burdensome income tax rates described above.

On June 4, 2010, Brazilian tax authorities enacted Normative Ruling No. 1,037 listing (i) the countries and jurisdictions considered as tax haven jurisdictions for purposes of Brazilian law and (ii) the privileged tax regimes. Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that the abovementioned concept of “privileged tax regime” should apply only for the purposes of Brazilian transfer pricing and thin capitalization rules, it is unclear whether such concept would also apply to payments related to the Notes to non-residents for purposes of this law. There is no judicial guidance as to the application of Law 11,727 and, accordingly, we are unable to predict whether the Brazilian Internal Revenue Service or the Brazilian courts may decide that the “privileged tax regime” concept shall be applicable to deem a non-resident Holder as a tax haven resident when carrying out investments in the applicable Notes. In the event that the “privileged tax regime” concept is interpreted to be applicable to transactions such as payments related to the Notes to non-residents, this tax law would accordingly result in the imposition of taxation to a non-resident Holder that meets the privileged tax regime requirements in the same way applicable to a tax haven resident.

Payments Under the Notes to be Made by the Issuer on Behalf of the Cayman Islands Branch with Funds Located in Brazil

In the event the Cayman Islands Branch fails to punctually pay any due amount, comprising payment of principal, interest and all other amounts that may be due and payable in respect of the Notes, our Brazilian principal office will be required to assume the guarantee obligation to pay such due amount to the holder. In spite of the lack of a clear regulation regarding the remittance of funds from Brazil abroad in connection with the execution of this type of obligation, we take the position that this transaction should be viewed as a new credit transaction between our Brazilian principal office and the Cayman Islands Branch, which is not subject to withholding income taxation in Brazil. If the above position does not prevail in case of a tax dispute, the amounts that may be remitted by the Issuer abroad in the aforementioned circumstances could be subject to Brazilian withholding income tax at a rate of 15%, or 25% if the non-resident holder is domiciled in a tax haven jurisdiction.

In the event our Brazilian principal office is required to make any payment as a guarantor in connection with the Notes to the holder, our Brazilian principal office would be required to pay such additional amounts as may be necessary to ensure that the net amounts receivable by the holder after withholding for taxes will equal the amounts that would have been payable in the absence of such withholding.

Gains

According to Section 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 at a rate of 15% or 25%, depending on whether or not the beneficiary is resident of a tax haven jurisdiction under Brazilian law.

Based on the fact that the Notes are issued abroad and, therefore, may 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 such 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. However, considering the general scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, it is impossible to predict whether such interpretation will ultimately prevail in the Brazilian courts. If the position mentioned above does not prevail, gains realized by a non-resident holder from the sale or other disposition of the Notes could be subject to Brazilian withholding income tax at a rate of 15% (or 25% if the non-resident holder is domiciled in a tax haven jurisdiction).

Although we believe that gains realized by a non-resident holder on the repayment or redemption of the Notes as a result of a fluctuation in currency exchange rates do not constitute taxable income in Brazil, Brazilian tax laws are not entirely clear on the matter. If this position does not prevail, any such gains may be subject to Brazilian withholding tax at the rates of 15% or 25%, as discussed above. In this case, the Issuer would be required to pay such additional amounts as may be necessary to ensure that the net amounts to be received by a non-resident holder after withholding for the applicable taxes will equal the amounts that would have been payable in the absence of such withholding.

Other Tax considerations

IOF/Câmbio may apply if payments are made from Brazil. Pursuant to Decree No. 6,306, of December 14, 2007, the conversion of foreign currency into Brazilian *reais* and the conversion of Brazilian *reais* into foreign currency are subject to the IOF/Câmbio. Currently, the IOF/Câmbio rate is 0.38% for most transfers of foreign currency into *reais*. According to Section 15-A of the Decree No. 6,306, the liquidation of exchange transactions in connection with foreign financing or loans, for both inflow and outflow of proceeds into and from Brazil, are subject to IOF/Câmbio at a zero percent rate. However, in the case of the liquidation of foreign exchange transactions (including simultaneous foreign exchange transactions) agreed from December 5, 2012, in connection with the inflow of proceeds to Brazil deriving from foreign loans, including those obtained through the issuance of notes in the international market, with the minimum average term not exceeding 360 days, the IOF/Câmbio tax rate is 6% (this rate of 6% will be levied with penalties and interest in the case of financings or international bonds with a minimum average term longer than 360 days in which an early redemption occurs in the first 360 days). Note that the Brazilian Government may increase the current IOF/Câmbio rate at any time, up to a maximum rate of 25%. Any such new rate would only apply to future foreign exchange transactions.

IOF also applies to credit transactions in general, which may include the performance of guarantee transactions between a guarantor and a guaranteed party. IOF is not levied on foreign credit transactions in which the creditor is domiciled outside Brazil, in which case IOF/Câmbio will apply. IOF levied on credit transactions is usually assessed at a daily rate of 0.0041%, up to a limit of 365 days. Additionally, an IOF surtax of 0.38% is currently applicable to most of the credit transactions, regardless of the term for the transaction maturing.

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 holder (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.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at the rate of 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement between the EU and certain non-EU states relating to the exchange of information relating to such payments.

A number of non-EU states, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On November 13, 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

Cayman Islands Tax Considerations

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.

Certain United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THE OFFERING MEMORANDUM OR ANY DOCUMENT REFERRED TO HEREIN IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY PROSPECTIVE HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE U.S. INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes based upon the U.S. Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations, administrative

pronouncements and published rulings of the Internal Revenue Service (the “IRS”), and court decisions, all as in existence as of the date hereof, and all of which are subject to different interpretations and may be repealed, revoked or modified (possibly with retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed 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 Programme, and the relevant Final Terms will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to some types of Notes as appropriate. This summary applies only to U.S. Holders (as defined below) that hold the Notes as capital assets (generally, property held for investment purposes). This summary is intended for general information only and does not address all of the U.S. federal income tax consequences that may be relevant to U.S. Holders in light of their particular circumstances. In addition, it does not apply to holders subject to special rules, including a broker or dealer in securities or currencies, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a tax-exempt organization, an insurance company, a bank, thrift or other financial institution, a mutual fund or a regulated investment company, a U.S. expatriate, a person liable for alternative minimum tax, a person that will own, or will have owned, directly, indirectly or constructively 10% or more (by vote or value) of the equity of the Issuer, a person that holds an interest in an entity that holds the Notes, a partnership or other pass-through entity for U.S. federal income tax purposes, a person that holds the Notes as part of a hedging, integration, conversion or constructive sale transaction or a straddle, or a person whose functional currency is not the U.S. dollar. This discussion does not purport to be a complete analysis of all of the potential U.S. federal income tax considerations that may be relevant to particular U.S. Holders in light of their particular circumstances. Furthermore, it does not address the 3.8% tax imposed on certain net investment income or any aspect of foreign, state, local, estate or gift taxation.

As used herein, the term “U.S. Holder” means a beneficial owner of the Notes who, for U.S. federal income tax purposes, is a citizen or individual resident of the United States, a corporation (or other entity that is treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States or any state thereof or the District of Columbia, an estate the income of which is subject to U.S. federal income tax regardless of its source, or a trust (i) if a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (ii) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes. Individuals who are not U.S. citizens are urged to consult their own tax advisors regarding whether they are residents of the United States for U.S. federal income tax purposes.

If a partnership (or other entity or arrangement that is treated as a partnership for U.S. federal income tax purposes) holds the Notes, the U.S. federal income tax treatment of a partner, beneficiary, or other stakeholder will generally depend on the status of that person and the activities of the pass-through entity. A partner, beneficiary, or other stakeholder in a pass-through entity holding the Notes should consult its own tax advisor with regard to the U.S. federal income tax treatment of its investment in the Notes.

Bearer Notes are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under U.S. federal income tax laws, including the treatment of any gains as ordinary gains (even if the Bearer Note is otherwise held as a capital asset) and the denial of deduction for any losses.

For purposes of this summary, a “Foreign Currency Note” means a Note on which all payments which a U.S. Holder is entitled to receive are denominated in, or determined by reference to, a single foreign currency. For this purpose, foreign currency means a currency or currency unit other than U.S. dollars. The following discussion only relates to the Notes the payment of which is denominated in, or determined by reference to, a single currency, whether that currency is a foreign currency or U.S. Dollars. If a Note is issued in circumstances where interest payments on the Note are denominated in, or determined by reference to, one currency and the principal portion of the Note may be denominated in, or determined by reference to, another currency (“Dual Currency Notes”), the applicable Final Terms will discuss the material U.S. federal income tax consequences in respect of these features to holders. The following discussion only relates to Notes that are properly treated as debt for U.S. federal income tax purposes. If a Note is issued in circumstances where the Note is or may be properly treated as equity for U.S. federal

income tax purposes, the applicable Final Terms will discuss the material U.S. federal income tax consequences to U.S. Holders.

THE FOLLOWING DISCUSSION IS FOR GENERAL INFORMATION ONLY AND IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES. THE TAX TREATMENT MAY VARY DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE U.S. FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES.

Payments of Interest

General

Interest on the Notes other than interest on a "Discount Note" that is not "qualified stated interest" (each as defined below under "—Payments of Interest—Original Issue Discount"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the particular holder's method of accounting for U.S. federal income tax purposes. Interest paid or accrued on the Notes and original issue discount ("OID"), if any, accrued with respect to the Notes (as described below under "—Payments of Interest—Original Issue Discount") will generally constitute foreign source income for foreign tax credit purposes. Prospective purchasers should consult their own tax advisors concerning the applicability of the foreign tax credit and source rules to income attributable to the Notes.

Foreign Currency Denominated Interest

If an interest payment is denominated in, or determined by reference to, a 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 exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. Dollars. If the interest payment is converted into U.S. Dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency exchange gain or loss in respect to the interest income. A U.S. Holder may have foreign currency exchange gain or loss (generally taxable as an ordinary gain or loss) if the interest payment is converted into U.S. Dollars after the date of receipt. In general, foreign currency exchange gain or loss will be treated as U.S. source gain or loss for foreign tax credit purposes.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with one of three 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 exchange 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 exchange rate in effect on the last day of the taxable year). Under the third method, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may translate the accrued interest into U.S. Dollars at the exchange 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 accrued interest payments (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognize foreign currency exchange gain or loss (generally taxable as an ordinary gain or loss) equal to the difference between the amount received (translated into U.S. Dollars at the exchange rate in effect 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 payment is then converted into U.S. Dollars on the date of receipt, a U.S. Holder should not be required to recognize any additional foreign currency exchange

gain or loss in respect to the payment. A U.S. Holder may have additional foreign currency exchange gain or loss if the payment is converted into U.S. Dollars after the date of receipt. In general, foreign currency exchange gain or loss will be treated as U.S. source gain or loss for foreign tax credit purposes.

Effect of Brazilian Withholding Taxes

As discussed under “Taxation—Brazilian Tax Considerations,” payments in respect of the Notes may be subject to Brazilian withholding taxes. As discussed under “Terms and Conditions of the Notes—Taxation,” under certain circumstances 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 with respect to a Note, and as then having actually paid over the withheld taxes to the Brazilian taxing authorities. In this case, the amount of income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment 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 will generally be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Brazilian income taxes properly withheld by the Issuer; provided that, if a U.S. Holder elects to deduct Brazilian taxes for any taxable year, such U.S. Holder must deduct, rather than credit, all foreign taxes for such taxable year. For purposes of the foreign tax credit limitation, foreign source income is classified in one of two “baskets,” and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to income in that basket. Interest and OID will generally constitute foreign source income in the “passive income” basket. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for Brazilian taxes imposed on a payment of interest if the U.S. Holder has not held the Notes for at least 16 days during the 31-day period beginning on the date that is 15 days before the date on which the right to receive the payment arises. Since a U.S. Holder may be required to include OID on the Notes in its gross income in advance of any withholding of Brazilian income taxes from payments attributable to the OID (which would generally occur when the Note is repaid or redeemed), a U.S. Holder may not be entitled to a credit or deduction for these Brazilian income taxes in the year the OID is included in the U.S. Holder’s gross income, and may be limited in its ability to credit or deduct in full the Brazilian taxes in the year those taxes are actually withheld by the Issuer. Prospective purchasers should consult their own tax advisors regarding the foreign tax credit implications and other tax consequences with respect to the payment of such withholding taxes.

Original Issue Discount

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID. The following summary does not discuss Notes that are characterized as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments, the applicable Final Terms will describe the material U.S. federal income tax consequences thereof.

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”) 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 (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 greater 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): the product of (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 are 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. A payment of “qualified stated interest” is generally any one of a series of stated interest payments on a Note that are unconditionally payable 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”), applied to the outstanding principal amount of the Note. 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.

A U.S. Holder of Discount Notes must generally include OID in gross income as ordinary interest income as it accrues over the term of the Discount Notes using the “constant yield method” without regard to its regular method of accounting for U.S. federal income tax purposes and in advance of the receipt of cash payments attributable to that income. Under the constant yield method, the amount of OID will generally increase over the term of the Discount Notes.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “acquisition premium”) and that does not make the election described below under “—Payments of Interest—Election to Treat All Interest as Original Issue Discount,” is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or in the case of a Discount Note, in excess of its stated redemption price at maturity will be considered to have purchased the Note at a premium and the OID rules will not apply to such U.S. Holder. Such U.S. Holder 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 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 debt instruments (other than debt instruments 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. See also “—Payments of Interest—Election to Treat All Interest as Original Issue Discount” below.

Market Discount

A Note, other than a Short-Term Note, will generally be treated as purchased at a market discount (a “Market Discount Note”) if the Note’s principal amount or, in the case of a Discount Note, the Note’s “revised issue price,” exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note’s stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note’s maturity (or, in the case of a Note that is an installment obligation, the Note’s weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes “*de minimis* market discount.” For this purpose, the “revised issue price” of a Discount Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognized on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Because of the complexity and variety of special rules relating to the treatment of market discount and acquisition and bond premium, prospective purchasers should consult their own tax advisors concerning the tax consequences of purchasing the Notes at a discount or a premium from the Note's issue price.

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 “—Payments of Interest—Original Issue Discount,” with certain modifications. For purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium (described above under “—Notes Purchased at a Premium”) or acquisition premium. This election will generally apply only to the Note with respect to which it is made, must be made for the taxable year in which the U.S. Holder acquired the Note, 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 include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. A U.S. Holder may not revoke any election to apply the constant yield method to all interest on a Note or the deemed elections with respect to amortizable bond premium or Market Discount Notes without the consent of the IRS. U.S. Holders should consult their own tax advisors regarding the consequences of this election.

Variable Interest Rate Notes

A Note that provides for interest at a variable rate (a “Variable Interest Rate Note”) will be treated as a “variable rate debt instrument” under Treasury regulations governing accrual of OID if (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; (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; and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

If a Variable Interest Rate Note qualifies as a “variable rate debt instrument,” then any stated interest on the Note which is unconditionally payable in cash or property (other than in debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. If a Variable Interest Rate Note does not qualify as a “variable rate debt instrument,” then the Variable Interest Rate Note will be treated as a contingent payment debt obligation.

In the event the Issuer issues a Variable Interest Rate Note, the applicable Final Terms will more fully describe the material U.S. federal income tax consequences thereof.

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 these rules for Short-Term Notes) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realized on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes to the extent the interest does not exceed 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.

Foreign Currency Notes

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under "—Payments of Interest—Foreign Currency Denominated Interest." Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or disposition of the Note), a U.S. Holder may recognize U.S. source foreign currency 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 on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. Dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognize U.S. source foreign currency exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will 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 foreign exchange gain or loss.

Amortizable bond premium and acquisition premium on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognize U.S. source foreign currency exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognize a market loss when the Note matures.

Sale, Exchange or Other Taxable Disposition of Notes

General

A U.S. Holder's tax basis in a Note will generally be its cost increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortizable bond premium applied to reduce interest on the Note.

A U.S. Holder will generally recognize gain or loss on the sale, retirement, exchange or other taxable disposition of a Note equal to the difference between the amount realized on the sale, retirement, exchange or other taxable disposition and the tax basis of the Note. The amount realized does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under “—Payments of Interest—Market Discount” or “Payments of Interest—Short-Term Notes” or attributable to changes in exchange rates (as discussed below under “—Foreign Currency Notes”), gain or loss recognized on the sale, retirement, exchange or other taxable disposition of a Note will be capital gain or loss and will generally be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year at the time of such sale, retirement, exchange or other taxable disposition. The deductibility of capital losses is subject to significant limitations.

Gain or loss realized by a U.S. Holder on the sale, retirement, exchange or other taxable disposition of a Note will generally be U.S. source. Therefore, a U.S. Holder may have insufficient foreign source income to utilize foreign tax credits attributable to any non-U.S. withholding tax imposed on a sale or disposition. Prospective purchasers should consult their own tax advisors as to the availability of and limitations on any foreign tax credit attributable to any such withholding tax.

Foreign Currency Notes

A U.S. Holder's tax basis in a Note that is denominated in a 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 will generally be the U.S. Dollar value of the purchase price on 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 or retirement for an amount in foreign currency will be the U.S. Dollar value of this amount on the date of sale or retirement or, in the case of Notes 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 rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. Dollar value of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realized only to the extent of total gain or loss realized on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

Contingent Payments

A tranche of Notes issued under the Programme may provide for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies. In the event the Issuer

issues such instruments, the applicable Final Terms will describe the material U.S. federal income tax consequences thereof.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes) and the U.S. Holder's tax basis in the Notes. U.S. Holders should consult their tax advisors concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Reportable Transactions

U.S. Treasury regulations that are intended to require the reporting of certain tax shelter transactions could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the U.S. Treasury regulations, certain transactions are required to be reported to IRS, including, in certain circumstances, a disposition of Foreign Currency Notes or foreign currency received in respect of Foreign Currency Notes to the extent that such disposition results in a tax loss in excess of a threshold amount.

U.S. Holders should consult their own tax advisors to determine the tax reporting obligations, if any, with respect to an investment in Foreign Currency Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to payments made on the Notes, as well as on proceeds from the sale, exchange or other taxable disposition of the Notes paid within the United States (and in certain cases, outside the United States) to U.S. Holders other than certain exempt recipients (such as corporations). In addition, backup withholding (currently imposed at a rate of 28%) may apply to such amounts if a U.S. Holder fails to furnish a correct Taxpayer Identification Number ("TIN") on IRS Form W-9 (or substitute IRS Form W-9) or otherwise fails to comply with applicable requirements. Amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the U.S. Holder's U.S. federal income tax liability, provided that certain required information is furnished to the IRS in a timely manner.

Legislative Developments

Legislation enacted in 2010 requires certain individual U.S. Holders to report information with respect to their investment in Notes not held through a custodial account with a U.S. financial institution to the IRS. U.S. Holders who fail to report required information could become subject to substantial penalties. Prospective purchasers are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in the Notes.

If applicable, certain U.S. federal income tax consequences of the acquisition, ownership and disposition of each issuance of the Notes under this Offering Circular will be further described in the relevant Final Terms.

THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, AND OTHER TAX LAWS

AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL INCOME OR OTHER TAX LAWS.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the acquisition of the Notes by employee benefit plans that are subject to Title I of ERISA, plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code, plans and other arrangements that are subject to the provisions of any Similar Law and entities or accounts whose underlying assets are deemed to include the assets of any such employee benefit plan, plan, account or arrangement (each, a “Plan”).

General Fiduciary Matters

ERISA imposes certain duties on Plans subject to Title I of ERISA and persons who are fiduciaries of such Plans, and ERISA and the Code prohibit certain transactions involving the assets of a Plan subject to Title I of ERISA or Section 4975 of the Code (each, an “ERISA Plan”) and certain persons (referred to as “parties in interest” or “disqualified persons”), unless a statutory or administrative exemption applies to the transaction. Under ERISA, any person who exercises any discretionary authority or control over the administration of a Plan subject to Title I of ERISA or the management or disposition of the assets of such a Plan, or who renders investment advice for a fee or other compensation to such a Plan, is generally considered to be a fiduciary of such Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary of such Plan should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to the fiduciary’s duties to the Plan, including without limitation the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any applicable Similar Law. The fiduciary should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that the acquisition and holding of the Notes will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA, the Code or any Similar Law.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of Section 4975 of the Code, unless an exemption is available. Such parties in interest or disqualified persons could include, without limitation, the Issuer, the Dealers, the Trustee, the Registrar, the Agents or any of their respective affiliates. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the Issuer or certain of its affiliates is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor (the “DOL”) has issued prohibited transaction class exemptions, or “PTCEs,” that may apply to the acquisition and holding of the Notes. These class exemptions include, without limitation and as amended from time to time, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting transactions involving insurance company pooled separate accounts, PTCE 91-38 respecting transactions involving bank collective investment funds, PTCE 95-60 respecting transactions involving insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions with a person that is a party in interest or disqualified person solely by reason of providing services to an ERISA Plan (or solely by reason of a relationship to such a service provider),

provided that neither the party in interest or disqualified person nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the ERISA Plan involved in the transaction and provided further that the ERISA Plan receives no less, nor pays no more, than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemption will be satisfied in connection with an ERISA Plan's acquisition and holding of the Notes, or that the scope of relief provided by any such exemption will cover all acts that might be construed as prohibited transactions.

By its acquisition of any Notes, the acquiror thereof will be deemed to have represented and warranted that either: (i) it is not and for so long as it holds the Notes (or any interest therein) will not be (and is not acquiring the Notes or any interest therein directly or indirectly with the assets of a person who is or while the Notes or any interest therein are held will be) a Plan, or (ii) its acquisition and holding of the Notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Law. In addition, each person that acquires any Notes (or any interest therein) with the assets of a Plan will be deemed to have represented and warranted that neither the Issuer nor any of its affiliates has investment discretion or renders investment advice (for a fee or other compensation) with respect to such assets.

Consultation with Counsel

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that a Plan fiduciary consult with its counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Law to the acquisition and holding of the Notes and whether an exemption would be applicable to the acquisition and holding of the Notes.

The sale of Notes to a Plan is in no respect a representation by the Issuer, the Dealers or any other person that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan or that such an investment is appropriate for Plans generally or for any particular Plan.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to or through any one or more of the Dealers. The arrangements under which the Notes may from time to time be agreed to be sold by the Issuer to or through the Dealers are set out in the amended and restated Dealer Agreement dated January 9, 2013 (as amended from time to time, the “Dealer Agreement”) and made between the Issuer and the Dealers. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers, the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes.

It is intended that the Notes will normally be bought or traded by a limited number of investors who are particularly knowledgeable in investment matters.

Prior to the initial offering of the Notes under this Programme, there was no established trading market for the Notes. Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market, which is not a regulated market within the meaning of the MIFID Directive. Notes may also be listed on another stock exchange or may be unlisted, as specified in the Final Terms.

General

No action has been or will be taken in any jurisdiction by the Dealers or the Issuer that would permit a public offering of any of the Notes, or possession or distribution of this Offering Memorandum, or any part thereof including any Final Terms, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Offering Memorandum, or any part thereof including any Final Terms, or any such other material, in all cases at its own expense. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will also ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions (except to the extent that such actions are the actions of the Issuer). The Issuer will have no responsibility for, and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree, that it will obtain any consent, approval or permission required by it for the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it may make any acquisition, offer, sale or delivery.

No Dealer is authorized to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Offering Memorandum, including the applicable Final Terms and any other information or document supplied.

Each purchaser of Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this Offering Memorandum or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and neither the Issuer nor any Dealer shall have any responsibility therefor.

Selling restrictions may be modified by the agreement of the Issuer and the relevant Dealers. Any such modification will be set out in the Final Terms issued in respect of each Tranche to which it relates or in a supplement to this Offering Memorandum.

United States of America

The Notes have not been and will not be registered under the Securities Act, and we are not registered as an investment company under the Investment Company Act. In addition, ERISA and related regulation apply to the purchase of Notes. Accordingly, the offering and resale of Notes are subject to significant transfer restrictions. See “Certain ERISA Considerations” and “Transfer Restrictions” for additional information on these transfer restrictions.

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 Programme 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 of Notes which are the subject of the offering contemplated by this Offering Memorandum, as completed by the Final Terms in relation thereto, to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public of such Notes in the Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or
- (c) 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 (c) above shall require the Issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means European Council Directive 2003/71/EC (and any amendment thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that: (a) in relation to any Notes which have a maturity of less than one year, (i) 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 (ii) it has not offered or sold and will not offer or sell any Notes other than to persons (A) 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 (B) 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; (b) it has only communicated or caused

to be communicated and will only communicate or cause to be communicated an 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 (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Brazil

The Notes have not been and will not be issued nor placed, distributed, offered or negotiated in the Brazilian capital markets. Neither the Issuer of the Notes nor the issuance of the Notes have been or will be registered with the CVM. Therefore, each dealer has represented and agreed that it has not offered or sold, and will not offer or sell, the Notes in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation of securities in the Brazilian capital markets regulated by Brazilian legislation. Subsequent trading of the Notes in private transactions is not subject to registration in Brazil to the extent such trading does not qualify as a public offering or distribution. Persons wishing to offer or acquire the **Notes** within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

The Cayman Islands

Each Dealer has agreed that it has not offered or sold, and will not offer or sell, any Notes to the public in the Cayman Islands. Notes may be issued to ordinary nonresident 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 or the Cayman Islands Monetary Authority prohibiting (a) the sale of Notes to the public in the Cayman Islands or (b) any invitation to the public in the Cayman Islands to subscribe for the Notes.

Chile

The Notes will not be registered under Law 18,045, as amended, of Chile with the *Superintendencia de Valores y Seguros* (Chilean Securities Commission), and accordingly, they may not be offered to persons in Chile, except in circumstances that do not constitute a public offering under Chilean law and the regulations from the *Superintendencia de Valores y Seguro*. Chilean institutional investors (such as banks, pension funds and insurance companies) are required to comply with specific restrictions relating to the purchase of the Notes.

Colombia

The Notes have not been and will not be offered in Colombia through a public offering of securities pursuant to Colombian laws and regulations, nor will they be registered in the Colombian National Registry of Securities and Issuers or listed on a regulated securities trading system such as the Colombian Stock Exchange.

France

The Notes are being issued and sold outside the Republic of France and, in connection with their initial distribution, the Notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in the Republic of France, and this offering memorandum or any other offering material relating to the Notes have not been distributed and will not be distributed or caused to be distributed to the public in the Republic of France, and such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors (*investisseurs qualifiés*) in accordance with Article L.411-2 of the Monetary and Financial Code and décret no. 98 880 dated 1st October, 1998.

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

Italy

The offering of the Notes has not been cleared by the *Commissione Nazionale per le Società e la Borsa*, the Italian securities exchange commission (“CONSOB”) pursuant to the Italian securities laws and regulations. Accordingly, the Notes may not be offered, sold or delivered in the Republic of Italy, and copies of this offering memorandum or any other document relating to the Notes may not be circulated or distributed in the Republic of Italy, except to

- (a) qualified investors (*investitori qualificati*) as defined in Article 34-ter, first paragraph, letter b) of CONSOB Regulation no. 11971 dated May 14, 1999, as amended (“Regulation no. 11971”), pursuant to Article 100 paragraph 1, letter a) of Legislative Decree no. 58 dated February 24, 1998, as amended (the “Italian Securities Act”); or
- (b) in circumstances where there is an exemption from the rules governing an offer to the public pursuant to the Italian Securities Act, and its implementing CONSOB regulations, including Regulation no. 11971.

Any offer, sale or delivery of the Notes in the Republic of Italy or distribution of copies of this Offering Memorandum or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be (i) made by *soggetti abilitati* (including investment firms, banks or financial intermediaries, as defined by Article 1, first paragraph, letter r), of the Italian Securities Act, permitted to conduct such activities in the Republic of Italy in compliance with the Italian Securities Act, Legislative Decree no. 385 dated September 1, 1993, as amended and CONSOB Regulation no. 16190 dated October 29, 2007, as amended, and any other applicable law and regulation; and (ii) in compliance with any applicable Italian laws and regulations and any other requirement or limitation that may be imposed by CONSOB, the Bank of Italy (*Banca d'Italia*) or any other relevant Italian authorities.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “Financial Instruments and Exchange Law”) and each dealer has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan

Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore “SFA,” and accordingly, the

dealers may not offer nor sell the Notes pursuant to an offering nor make the Notes the subject of an invitation for subscription or purchase, nor will the dealers circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, Chapter 289 (b) to a relevant person (as defined in Section 275(2) of the SFA) or any person, pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Each holder of the Notes should note that any subsequent sale of the Notes acquired pursuant to an offer under this Offering Memorandum made under exemptions (a) or (b) above within a period of six months from the date of the initial acquisition is restricted to (i) institutional investors (as defined in Section 4A of the SFA), (ii) relevant persons as defined in Section 275(2) of the SFA, and (iii) persons pursuant to an offer referred to in Section 275(1A) of the SFA.

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely: (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Switzerland

The Notes may not and will not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland only on the basis of a non-public offering, and neither this offering memorandum nor any other solicitation for investments in our securities may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of articles 652a or 1156 of the Swiss Federal Code of Obligations or of Article 3 of the Federal Act on Collective Investment Schemes of June 23, 2006. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the dealers' prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 27 of the Listing Rules of the SIX Swiss Exchange and may not comply with the information standards required thereunder. We will not apply for a listing of the Notes on any Swiss stock exchange or other Swiss regulated market and this offering memorandum may not comply with the information required under the relevant listing rules. The Notes have not been and will not be approved by any Swiss regulatory authority. The Notes have not been and will not be registered with or supervised by the Swiss Federal Banking Commission, and have not been and will not be authorized under the Federal Act on Collective Investment Schemes of June 23, 2006. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on Collective Investment Schemes of June 23, 2006 does not extend to acquirers of our securities.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of our Notes.

No U.S. Registration, Investment Company Act and Other Restrictions

We are not registered as an investment company under the Investment Company Act, and our Notes have not been registered under the Securities Act. They may not be offered or sold within the United States except in a transaction that:

- is in compliance with the registration requirements of the Securities Act and all applicable securities laws in the states of the United States;
- is exempt from, or is not subject to, the registration requirements of the Securities Act and any applicable securities laws of the states of the United States; and
- is neither prohibited by the Investment Company Act nor would require our company to register as an investment company under the Investment Company Act.

In addition, the offering or sale of our Notes must be in compliance with the applicable rules under ERISA, Section 4975 of the Code and any Similar Law.

Interests in any Restricted Global Notes will be offered and sold initially only:

- inside the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act) that are also qualified purchasers (as defined in Section 2(a)(51) of the Investment Company Act) in compliance with the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder, and who have submitted orders to acquire Restricted Global Notes in an amount of not less than US\$250,000 as reasonably determined by the Dealers or as certified by the purchasers of Restricted Global Notes.

Interests in any Unrestricted Global Notes will be offered and sold initially only:

- outside the United States to persons in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act (and no such transaction may involve a sale of the Unrestricted Global Notes to or for the account or benefit of a U.S. person as defined in Regulation S) or (ii) if such person is a U.S. person (as defined in Regulation S) but the transaction otherwise complies with Regulation S, such person is a qualified purchaser (as defined in Section 2(a)(51) of the Investment Company Act) .

We are not obligated to file a registration statement with respect to our Notes, and we may not file such a registration statement.

The offer and sale of the Notes is also subject to certain ERISA restrictions as described under the section entitled “Certain ERISA Considerations” and summarized in the representations deemed made by the purchaser of our Notes and the legends included in our Notes, as set forth below in these transfer restrictions

Each purchaser of Notes may be required, at the Dealer’s exclusive discretion, to certify in any manner acceptable to the Dealer that such purchaser is eligible to purchase the Notes being offered under the Programme.

Investment Company Act

In reliance on Section 3(c)(7) under the Investment Company Act, or Section 3(c)(7), we have not registered as an investment company pursuant to the Investment Company Act. To rely on Section 3(c)(7), we must have a “reasonable belief” that all purchasers of the Restricted Global Notes (including the initial purchasers and subsequent transferees) that are located in the United States or that are U.S. persons as defined for purposes of Regulation S are “qualified purchasers” within the meaning of Section 2(a)(51) of the Investment Company Act at the time of their purchase of such securities. We will establish a reasonable belief for purposes of Section 3(c)(7) based upon (i) the representations deemed made by the purchasers of the securities as set forth in these transfer restrictions, (ii) the legends included in our Notes and (iii) the procedures and restrictions referred to below.

Deemed Representations of Holders of Restricted Global Notes

Each purchaser of our Restricted Global Notes in this offering, as well as any person who acquires such Restricted Global Notes in the future (each, a “purchaser”), that is in the U.S. or is a U.S. person as defined for purposes of Regulation S (including the registered holders and beneficial owners of the Restricted Global Notes) will be deemed to have represented, agreed and acknowledged as follows:

1. the purchaser (i) is a “*qualified institutional buyer*” as defined in Rule 144A of the Securities Act; (ii) is aware that the sale of the Restricted Global Notes to it is being made in reliance on an exemption from the registration requirements of the Securities Act and (iii) is acquiring such Restricted Global Notes for its own account or the account of one or more qualified institutional buyers;
2. the purchaser (i) is a “*qualified purchaser*” within the meaning of Section 2(a)(51) of the Investment Company Act and the rules and regulations thereunder, which term generally includes (a) any natural person (including any person who holds a joint, community property, or other similar shared ownership interest in an issuer that is exempt from registration under Section 3(c)(7) of the Investment Company Act with that person’s qualified purchaser spouse) who owns not less than US\$5,000,000 in investments, as defined by the SEC; (b) any company that owns not less than US\$5,000,000 in investments and that is owned directly or indirectly by or for two or more natural persons who are related as siblings or spouse (including former spouses), or direct lineal descendants by birth or adoption, spouses of such persons, the estates of such persons, or foundations, charitable organizations, or trusts established by or for the benefit of such persons; (c) any trust that is not covered by clause (b) and that was not formed for the specific purpose of acquiring the securities offered, as to which the trustee or other person authorized to make decisions with respect to the trust, and each settlor or other person who has contributed assets to the trust, is a person described in clause (a), (b), or (d); or (d) any person, acting for its own account or the accounts of other qualified purchasers, who in the aggregate owns and invests on a discretionary basis, not less than US\$25,000,000 in investments; (ii) is aware that we will not be registered under the Investment Company Act in reliance on the exemption set forth in Section 3(c)(7) thereof and that the Restricted Global Notes have not been and will not be registered under the Securities Act and (iii) is acquiring such Restricted Global Notes for its own account or the account of one or more qualified purchasers as to which the purchaser exercises sole investment discretion, as the case may be;
3. the purchaser is not a broker-dealer that owns and invests on a discretionary basis less than US\$25,000,000 in securities of unaffiliated issuers;
4. either (i) the purchaser is not and for so long as it holds the Restricted Global Notes (or any interest therein) will not be (and is not acquiring the Restricted Global Notes or any interest therein directly or indirectly with the assets of a person who is or while the Restricted Global Notes or any interest therein are held will be) a Plan, or (ii) the purchaser’s acquisition and holding of the Notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Law;

5. if the purchaser is acquiring the Restricted Global Notes (or any interest therein) with the assets of a Plan, neither the Issuer nor any of its affiliates has investment discretion or renders investment advice (for a fee or other compensation) with respect to such assets;
6. the purchaser is not purchasing the Restricted Global Notes with a view to the resale, distribution or other disposition thereof in violation of the Securities Act;
7. the purchaser was not formed for the purpose of investing in us;
8. the purchaser understands that we may receive a list of participants holding positions in the Notes;
9. the purchaser will not engage in hedging or short-selling or place simultaneous sell and buy orders or engage in similar kinds of transactions involving Restricted Global Notes that have the purpose or effect of evading the applicable restrictions on resale;
10. neither the purchaser nor any account for which the purchaser is acquiring the Restricted Global Notes will hold such Restricted Global Notes for the benefit of any other person and the purchaser and each such account will be the sole beneficial owners thereof for all purposes and will not sell participation interests in the Restricted Global Notes or enter into any other arrangement pursuant to which any other person will be entitled to an interest in the distributions on the Restricted Global Notes ;
11. the Restricted Global Notes are being offered only in a transaction not involving any public offering within the meaning of the Securities Act. The Restricted Global Notes have not been and will not be registered under the Securities Act and we have not been and will not be registered under the Investment Company Act and, if in the future the purchaser decides to offer, resell, pledge or otherwise transfer the Restricted Global Notes, such Restricted Global Notes may be offered, resold, pledged or otherwise transferred only to a person who the purchaser reasonably believes can make the representations set forth herein or in “—Deemed Representations of Holders of Unrestricted Global Notes”;
12. in the event that we or the Transfer Agent determine in good faith that a holder or beneficial owner of the Restricted Global Notes is in breach, at the time given, of any of the representations or agreements set forth above, we or the Transfer Agent may require such holder or beneficial owner to transfer such Restricted Global Notes or beneficial interests therein to a transferee acceptable to us as set forth under “Forced Sale of Securities”; pending such transfer, the holder will be deemed not to be the holder of such Restricted Global Notes for any purpose, and such holder will be deemed to have no interest whatsoever in such Restricted Global Notes except as otherwise required to redeem or sell its interest therein; and
13. the purchaser understands that the Restricted Global Notes offered in reliance on Rule 144A will be represented by either a DTC Restricted Global Note or a European Restricted Global Note. Before any interest in the DTC Restricted Global Note or European 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 Restricted Global Note, the European Restricted Global Note, the DTC Unrestricted Global Note or the European 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.

Deemed Representations of Holders of Unrestricted Global Notes

Each purchaser (as defined above) of our Unrestricted Global Notes in this offering, as well as any person who acquires such Unrestricted Global Notes in the future (including the registered holders and beneficial owners of the Unrestricted Global Notes), will be deemed to have represented, agreed and acknowledged as follows:

1. the purchaser is a person who, at the time the buy order for the Unrestricted Global Notes was originated, was outside the United States and was not a “U.S. person” (and was not purchasing for the account or benefit of a “U.S. person”) as defined in Regulation S;
2. the purchaser understands that we may receive a list of participants holding positions in the Notes ;
3. the purchaser will not engage in hedging or short-selling or place simultaneous sell and buy orders or engage in similar kinds of transactions involving Unrestricted Global Notes that have the purpose or effect of evading the applicable restrictions on resale;
4. either (i) the purchaser is not and for so long as it holds the Unrestricted Global Notes (or any interest therein) will not be (and is not acquiring the Unrestricted Global Notes or any interest therein directly or indirectly with the assets of a person who is or while the Unrestricted Global Notes or any interest therein are held will be) a Plan, or (ii) the purchaser’s acquisition and holding of the Notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Law;
5. if the purchaser is acquiring the Unrestricted Global Notes (or any interest therein) with the assets of a Plan, neither the Issuer nor any of its affiliates has investment discretion or renders investment advice (for a fee or other compensation) with respect to such assets;
6. the Unrestricted Global Notes are being offered only in a transaction not involving any public offering within the meaning of the Securities Act. The Unrestricted Global Notes have not been and will not be registered under the Securities Act and we have not been and will not be registered under the Investment Company Act and, if in the future the purchaser decides to offer, resell, pledge or otherwise transfer the Unrestricted Global Notes, such Unrestricted Global Notes may be offered, resold, pledged or otherwise transferred only to a person who the purchaser reasonably believes can make the representations set forth herein or in —Deemed Representations of Holders of Restricted Global Notes”;
7. in the event that we or the Transfer Agent determine in good faith that a holder or beneficial owner of the Unrestricted Global Notes is in breach of any of the representations or agreements set forth above, we or the Transfer Agent may require such holder or beneficial owner to transfer such Unrestricted Global Notes or beneficial interests therein to a transferee acceptable to us, as set forth under “Forced Sale of Securities”; pending such transfer, the holder will be deemed not to be the holder of such Unrestricted Global Notes for any purpose, and such holder will be deemed to have no interest whatsoever in such Unrestricted Global Notes except as otherwise required to redeem or sell its interest therein; and
8. the purchaser understands that the Unrestricted Global Notes offered in reliance on Regulation S will be represented by a DTC Unrestricted Global Note or a European Unrestricted Global Note. Prior to the expiration of the distribution compliance period, before any interest in the DTC Unrestricted Global Note or the European Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the DTC Unrestricted Global Note, the European Unrestricted Global Note, the DTC Restricted Global Note or the European Restricted 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.

Legends

Each purchaser (including the registered holders and beneficial owners of the Notes as they exist from time to time, including as a result of transfers, in each case as of the time of purchase) of Restricted Global Notes within the United States pursuant to Rule 144A and Section 3(c)(7) by accepting delivery of this Offering Memorandum, understands that such Restricted Global Notes, unless we determine otherwise in compliance with applicable law, will bear a legend to the following effect:

“THE ISSUER OF THIS NOTE IS NOT, AND WILL NOT BE, REGISTERED AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, OR THE INVESTMENT COMPANY ACT, AND THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, OR 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 (A)(1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR RULE 144A, TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS BOTH A QUALIFIED INSTITUTIONAL BUYER, OR A QIB, WITHIN THE MEANING OF RULE 144A, AND A QUALIFIED PURCHASER, OR A QP, WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT THAT (I) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (II) IS NOT ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR ONE OR MORE ACCOUNTS, EACH OF WHICH IS A QIB THAT IS A QP, IN A PRINCIPAL AMOUNT OF NOT LESS THAN THE MINIMUM DENOMINATION FOR THE NOTES FOR THE PURCHASER AND FOR EACH SUCH ACCOUNT, (III) WAS NOT FORMED FOR PURPOSES OF INVESTING IN US, AND (IV) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, (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), PROVIDED, HOWEVER, THAT IF ANY HOLDER OR BENEFICIAL OWNER OF THIS NOTE IS A U.S. PERSON, SUCH HOLDER OR BENEFICIAL OWNER IS A QP, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION.

ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO US, THE TRANSFER AGENT OR ANY INTERMEDIARY.

BY ITS ACQUISITION AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN), THE ACQUIROR WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (AND IS NOT ACQUIRING THIS NOTE OR ANY INTEREST HEREIN DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THIS NOTE OR ANY INTEREST HEREIN IS HELD WILL BE) (I) AN “EMPLOYEE BENEFIT PLAN” (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR ERISA), THAT IS SUBJECT TO TITLE I OF ERISA, (II) A “PLAN” (AS DEFINED IN SECTION

4975(e)(1) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR THE CODE) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) A NON-U.S., GOVERNMENTAL OR CHURCH PLAN THAT IS NOT SUBJECT TO SUCH PROVISIONS OF ERISA OR THE CODE BUT WHICH IS SUBJECT TO THE PROVISIONS OF ANY NON-U.S. OR U.S. FEDERAL, STATE, OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, OR A SIMILAR LAW, OR (IV) AN ENTITY OR ACCOUNT WHOSE ASSETS ARE DEEMED TO BE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN SUBJECT TO ERISA, SECTION 4975 OF THE CODE OR ANY SIMILAR LAW, OR (B) ITS ACQUISITION AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION OF ANY APPLICABLE SIMILAR LAW. ANY PERSON ACQUIRING THIS NOTE (OR ANY INTEREST HEREIN) WITH THE ASSETS OF ANY SUCH PLAN, ENTITY OR ACCOUNT WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT NEITHER THE ISSUER NOR ANY AFFILIATE HAS INVESTMENT DISCRETION OR RENDERS INVESTMENT ADVICE (FOR A FEE OR OTHER COMPENSATION) WITH RESPECT TO SUCH ASSETS.”

Each purchaser of Unrestricted Global Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Unrestricted Global Notes in resales, by accepting delivery of this Offering Memorandum and the Notes, understands that such Unrestricted Global Notes, unless otherwise determined by us in accordance with applicable law, will bear a legend to the following effect:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, OR THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

BY ITS ACQUISITION AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN), THE ACQUIROR WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT (A) EITHER (1) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (AND IS NOT ACQUIRING THIS NOTE OR ANY INTEREST HEREIN DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THIS NOTE OR ANY INTEREST HEREIN IS HELD WILL BE) (I) AN “EMPLOYEE BENEFIT PLAN” (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR ERISA), THAT IS SUBJECT TO TITLE I OF ERISA, (II) A “PLAN” (AS DEFINED IN SECTION 4975(e)(1) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR THE CODE) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) A NON-U.S., GOVERNMENTAL OR CHURCH PLAN THAT IS NOT SUBJECT TO SUCH PROVISIONS OF ERISA OR THE CODE BUT WHICH IS SUBJECT TO THE PROVISIONS OF ANY NON-U.S. OR U.S. FEDERAL, STATE, OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, OR A

SIMILAR LAW, OR (IV) AN ENTITY OR ACCOUNT WHOSE ASSETS ARE DEEMED TO BE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN SUBJECT TO ERISA, SECTION 4975 OF THE CODE OR ANY SIMILAR LAW, OR (2) ITS ACQUISITION AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBIT TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION OF ANY APPLICABLE SIMILAR LAW, AND (B) IT IS A QUALIFIED PURCHASER (A "QP") WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, OR IT IS PURCHASING OR HOLDING THE NOTE FOR THE ACCOUNTS OF A QP. ANY PERSON ACQUIRING THIS NOTE (OR ANY INTEREST HEREIN) WITH THE ASSETS OF ANY SUCH PLAN, ENTITY OR ACCOUNT WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT NEITHER THE ISSUER NOR ANY AFFILIATE HAS INVESTMENT DISCRETION OR RENDERS INVESTMENT ADVICE (FOR A FEE OR OTHER COMPENSATION) WITH RESPECT TO SUCH ASSETS."

ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFeree, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO US, THE TRANSFER AGENT OR ANY INTERMEDIARY.

Forced Sale of Securities

The purchaser agrees that in the event that we or the Transfer Agent determine in good faith that a holder or beneficial owner of the Notes is in breach, at the time given, of any of the representations or agreements set forth above, we or the Transfer Agent, as the case may be, may require such acquirer or beneficial owner to transfer such Notes or beneficial interests therein to a transferee acceptable to us who is able to and who does make all of the representations and agreements set forth in these transfer restrictions.

INDEPENDENT AUDITORS

The consolidated financial statements of Banco BTG Pactual S.A. as of and for the years ended December 31, 2010, 2011 and 2012 included elsewhere in this Offering Memorandum have been audited by Ernst & Young Terco Auditores Independientes S.S., independent auditors, as stated in their reports appearing herein.

LEGAL MATTERS

The validity of the Notes will be passed upon for the Dealers by Shearman & Sterling LLP, English legal advisers and special United States counsel to the Dealers. The validity of the Notes will also be passed upon for the Issuer by Skadden, Arps, Slate, Meagher & Flom LLP, English legal advisers and special United States counsel to the Issuer. The validity of the issuance of the Notes and certain matters in connection with Brazilian law will be passed upon for the Dealers by Lefosse Advogados, the Dealers' Brazilian counsel. The validity of the issuance of the Notes and certain other matters in connection with Brazilian law will also be passed upon for the Issuer by Machado, Meyer, Sendacz e Opice Advogados. Ogier will pass upon certain matters of Cayman Islands law relating to the Notes for the Issuer..

GENERAL INFORMATION

1. The Bearer Notes and Registered Notes represented by a DTC Unrestricted Global Note or a European Unrestricted Global Note have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for each Bearer Series of Notes, together with the relevant ISIN number and the CUSIP and/or CINS numbers for each Tranche of Registered Notes, will be contained in the Final Terms relating thereto. In addition, we will make an application with respect to any Restricted Notes of a Registered Series that they be accepted for trading in book-entry form by DTC. Acceptance by DTC of Restricted Notes of such Tranche of a Registered Series will be confirmed in the applicable Final Terms.

2. All consents, approvals, authorizations and other orders of all regulatory authorities under the laws of Brazil have been given for the establishment of the Programme, the issue of Notes under the Programme and the execution of the Agency Agreement and Trust Deed and are in full force and effect, except for 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 the Issuer, acting through its principal office in Brazil, 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.

3. The establishment of the Programme was authorized by a resolution of our board of executive officers passed on June 14, 2011. We have obtained or will obtain from time to time all necessary consents, approvals and authorizations in connection with the issue and performance of the Notes.

4. Except as disclosed herein, neither we nor any of our subsidiaries is involved in any governmental, legal or arbitration proceedings which may have, or have had in the recent past, any significant effect on our financial position or profitability nor, so far as we are aware, are any such governmental, legal or arbitration proceedings pending or threatened.

5. Save as disclosed herein, there has been no significant change in our financial or trading position or the financial or trading position of us and our subsidiaries and affiliates taken as a whole since our most recently published unaudited interim consolidated financial statements included elsewhere in this Offering Memorandum, and no material adverse change in our prospects since the date of our most recently published annual audited consolidated financial statements.

6. We are a *sociedade anônima* duly incorporated on January 18, 1979 under the laws of Brazil with an indefinite term of duration. Our registered office in Brazil and principal administrative establishment is located at Praia de Botafogo, 501, 5 ° e 6 ° andares, Rio de Janeiro, RJ-22250-040, Brazil. The registered office of our Cayman Islands Branch is located at PO Box 705 – Butterfield House, 68 Fort Street, George Town KY1-1107, Cayman Islands. None of our directors and executive officers ourselves are residents of the United States, nor are we a resident of the United States, and all or a substantial portion of our assets and such persons are located outside the United States. It may not be possible for investors to effect service of process within the United States upon us or such persons, or to enforce against any of them in United States courts judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

7. For so long as the Programme remains in effect or any Notes shall be outstanding, physical copies of the following documents may be inspected and obtained during normal business hours (i) at the specified offices of any Paying Agent or Transfer Agent; (ii) at the registered office of Banco BTG Pactual S.A. in São Paulo, Brazil; and (iii) if the Notes were issued through our Cayman Islands branch and are outstanding, at the registered office of our Cayman Islands branch, namely:

- (a) the constitutive documents of Banco BTG Pactual S.A.;
- (b) the Offering Memorandum and any Final Terms relating to Notes which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system (Final Terms relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent, Transfer Agent or the Issuer, as the case may be, as to its holding of Notes and identity);
- (c) the Agency Agreement;
- (d) the Trust Deed, which has been incorporated herein by reference;
- (e) the Dealer Agreement;
- (f) the Procedures Memorandum (which contains the forms of the Notes in global and definitive form); and
- (g) (i) our most recent publicly available audited consolidated annual financial statements, beginning with the financial statements for the years ended December 31, 2012, 2011 and 2010.

8. In addition, copies of the items listed above will be provided free of charge at the Specified Offices of the Paying Agents and Transfer Agents. Application has been made for the Notes issued under the Programme to be listed on the Luxembourg Stock Exchange and traded on the Euro MTF market. However, Notes may be issued under the Programme which will not be listed on the Luxembourg Stock Exchange or any other stock exchange, listing authority and/or quotation system or which will be listed on such stock exchange, listing authority and/or quotation system as the relevant Dealer(s) and ourselves may agree. Expenses relating to the listing of the Programme are estimated to be €1,225.

ANNEX A: DIFFERENCES BETWEEN BRAZILIAN GAAP AND IFRS

We maintain our books and records in *reais*, the official currency of Brazil, and prepare our financial statements for regulatory purposes in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, or Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Law No. 8,021/90, Law No. 9,457/97, Law No. 10,303/01, Law No. 11,638/07 and Law No. 11,941/09, or Brazilian Corporations Law; and
- the accounting standards established by the Standard Chart of Accounts for Financial Institutions (*Plano Contábil das Instituições do Sistema Financeiro Nacional*), or COSIF, Central Bank and the CMN.

Law No. 11,638/07 and Law No. 11,941/09 amended the Brazilian Corporations Law and introduced the process of conversion of financial statements into International Financial Reporting Standards, or IFRS. However, the Central Bank did not fully adopt, as part of the accounting practices applicable to financial institutions, the provisions of Law No. 11,638. Instead, pursuant to Central Bank Communication No. 14,259, financial institutions that meet certain criteria are required to prepare supplemental consolidated financial statements in accordance with IFRS as originally issued by IASB and that are effective as of December 31, 2011. We are not including in this Offering Memorandum our supplemental financial statements prepared in accordance with IFRS.

There are certain differences between Accounting Practices Adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS (which incorporates all existing International Financial Reporting Standards, IAS, as well as IFRIC and SIC interpretations) which may be relevant to the financial information presented herein. This section makes no attempt to identify or quantify the impact of these differences, nor can we give you any assurances that all differences have been identified. The following is a summary of certain of those differences; however, this summary does not purport to be complete and should not be construed as exhaustive.

In reading this summary, prospective investors in the Notes should also have regard to the considerations:

- This summary includes differences between accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS as of December 31, 2012. Differences resulting from changes in accounting standards that will become effective after December 31, 2012 have not been taken into account in this summary.
- Differences among accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS resulting from future changes in accounting standards or from transactions or events that may occur in the future have not been taken into account in this summary and no attempt has been made to identify any future events, ongoing work and decisions of the regulatory bodies that promulgate accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS that could affect future comparisons among accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS. The current differences disclosed in this summary are not intended to be complete and are subject to, and qualified in their entirety by, reference to the respective pronouncements of Brazilian professional accounting bodies and those of the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.
- As differences among accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS may be significant to the financial position or results of operations of the Bank prospective investors unfamiliar with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank should consult their own professional advisors for an understanding of the differences among accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS and how

those differences might impact the financial information presented herein.

- Unlike IFRS, under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank there are no specific principles relating to certain matters such as business combinations and financial instruments.

This summary does not address differences related solely to the classification of amounts in the financial statements or footnote disclosures.

Foreign Currency Translation

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, the financial statements of subsidiaries operating in non-highly inflationary currency environments are translated using the current exchange rate. Financial statements presented in highly inflationary currency environments are generally adjusted for the effects of inflation prior to translation. Translation gains and losses are taken to the income statement.

Under IFRS, when translating financial statements into a different presentation currency (for example, for consolidation purposes), IFRS requires the assets and liabilities to be translated using the closing (year-end) rate. Amounts in the income statement are translated using the average rate for the accounting period if the exchange rates do not fluctuate significantly. Any translation differences are reported in equity (other comprehensive income).

Consolidation and Proportional Consolidation

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, financial statements should consolidate the following entities: (a) entities on which the company has voting rights that provides it with the ability to have the majority on the social decisions and to elect the majority of the members of the Board; (b) overseas branches; and (c) companies under common control or controlled by shareholders agreements irrespective of the participation in voting stock. Joint ventures, including investees in which the company exerts significant influence through its participation in a shareholders agreement in which such group controls the investee, could be accounted for under the proportional consolidation method.

Under IFRS, the condition for consolidation is to have control, which is defined as the parent's ability to govern the financial and operating policies of an entity to obtain benefits. Control is generally presumed to exist when the Parent owns, directly or indirectly through subsidiaries more than half of the voting power of the entity, and potential voting rights must be considered. Notion of "de facto control" also may be considered. The standard also requires the effects of all transactions that result in decreases in ownership interest in a subsidiary without a loss of control are accounted for as equity transactions in the consolidated entity (that is, no gain or loss is recognized). For transactions that result in a loss of control of a subsidiary or a group of assets, any retained noncontrolling investment in the former subsidiary or group of assets is re-measured to fair value on the date control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold.

Under IFRS, joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions regarding the activities require unanimous consent of the members of the joint venture. IAS 31 permits either the proportionate consolidation method or the equity method of accounting for interests in jointly controlled entities. The fair value option is not available to investors (other than venture capital organizations, mutual funds, unit trusts, and similar entities) to account for their investments in jointly controlled entities.

Under IFRS, specific guidance (SIC-12), is provided with respect to the consolidation of SPEs. A SPE may be created to accomplish a narrow and well defined objective. Such a special purpose entity may take the form of a corporation, trust, partnership or unincorporated entity and are often created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management.

The sponsor frequently transfers assets to the SPE, obtains rights to use assets held by the SPE or performs services for the SPE, while other parties may provide funding. An entity that engages in transactions with the SPE (frequently creator or sponsor) may in substance control the SPE.

SPEs shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

Business Combinations, Purchase Accounting and Goodwill

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, combinations are not specifically addressed by accounting pronouncements. Application of the purchase method is based on book values. Goodwill or negative goodwill recorded on the acquisition of a company is calculated as the difference between the cost of acquisition and the net book value. Goodwill is subsequently amortized to income over a period not to exceed 10 years. Negative goodwill may be recorded in income over a period consistent with the period over which the investee is expected to incur losses.

Under IFRS 3 (Revised), Business Combinations requires, among other things, that all business combinations, except those involving entities under common control be accounted for by a single method – the acquisition method.

Under IFRS 3 (Revised), the acquiring company records identifiable assets and liabilities acquired at their fair values. The shares issued in exchange for shares of other companies are accounted for at fair value based on the market price. All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

In addition, IFRS 3 (Revised) sets out more detailed guidelines as to the recognition of "intangible assets." Under IFRS 3 and IAS 38, "Goodwill and Other Intangible Assets," goodwill and other intangible assets with indefinite lives are no longer amortized. If assets other than cash are distributed as part of the purchase price, such assets should be valued at fair value.

Under IFRS 3 (Revised) negative goodwill will be recognized as a gain in the statement of operations. Finite lived intangible assets are generally amortized on a straight line basis over the estimated period benefited. The client deposit and relationship portfolios intangible asset is recorded and amortized over a period in which the asset is expected to contribute directly or indirectly to the future cash flows.

Transfer of Financial Assets

Until December 31, 2011, no specific accounting pronouncement addressed the recording of transfers of financial assets pursuant to Brazilian GAAP, except for when such a transfer involved a special purpose entity that is in substance controlled by the reporting entity. In addition, the sale or transfer of financial assets was derecognized from the balance sheet when the transferor retained all or substantially all of the risks and benefits relating to the ownership of such transferred asset. Commencing on January 1, 2012, financial assets remain on the transferor's balance sheet when the transferor sells or transfers a financial asset and retains all or substantially all of the risks and benefits of the asset. In such case, a financial liability is recognized for the consideration received for such asset.

Under IFRS, financial assets can be derecognized in full or partially but only when the necessary conditions are met. Derecognition conditions depend on the following factors:

- the rights to the asset's cash flows and substantially all risks and rewards of ownership are transferred;
- an obligation to transfer the asset's cash flows is assumed;

- substantially all risks and rewards are transferred and the following conditions are met:
 - (i) no obligation to pay cash flows unless equivalent cash flows from the transferred asset collected;
 - (ii) the obligation to pass through cash flows; and
 - (iii) obligation to remit any cash flows without material delay; or
- substantially all the risks and rewards are neither transferred nor retained but control of the asset is transferred.

Accounting for Guarantees by a Guarantor

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, guarantees granted to third parties are recorded in memorandum accounts. When fees are charged for issuing guarantees, the fee is recognized in income over the period of the guarantee. When the guaranteed party has not honored its commitments and the guarantor should assume a liability, a credit is recognized against the guaranteed party representing the right to seek reimbursement for such party with recognition of the related allowance for losses when considered appropriate.

Under IFRS, certain financial guarantees may be accounted for as insurance contracts if certain conditions are met. Otherwise, the guidance in IAS 39 applies: (i) record guarantee contracts at fair value upon initial recognition and (ii) subsequent measurement of the higher of the amount of expenditure needed to settle the obligation (measured under IAS 37) and the amount initially recognized less cumulative amortization, when appropriate, under IAS 18.

Securities

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, securities are classified based on the investment strategy of the financial institution as either trading securities, available for sale or held to maturity and defines the recognition of the fair market value of such securities as the basis for its presentation in the financial statements, except in the case where the investment strategy is to hold the investment until maturity. Recognition of changes in fair market value for trading securities is in income, while for available for sale securities is directly in shareholders' equity. The rules to account for securities are stated more generally and are less comprehensive than the standards to account for securities under IFRS.

Under IFRS, financial assets including debt and equity securities can be categorized and accounted for as follows:

- financial assets at fair value through profit or loss including both financial assets held for trading and any financial assets designated within this category at their inception;
- held to maturity investments held with a positive intent and ability to be held to maturity and are recorded at amortized cost. Equity securities cannot be classified as held to maturity investments;
- loans and receivables that correspond to financial assets with fixed or determinable payments not quoted in an active market and are measured at amortized costs; and
- available for sale financial assets including debt and equity securities designated as available for sale, except those equity securities classified as held for trading and those not covered in the above categories which are measured at fair value. Changes in fair value are recognized in equity and recognized in the statement of income when realized.

Comprehensive Income

Accounting Practices Adopted in Brazil do not have the concept of comprehensive income. Also, as under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, statutory reserves are required to appropriate 5% of the annual local currency earnings, after absorbing accumulated losses, to a legal reserve, which is restricted as to distribution. The reserve may be used to increase capital or absorb losses, but may not be distributed as dividends. Any income remaining after the distribution of dividends on the statutory records and appropriations to statutory reserves is transferred to the reserve for future investments. Such reserve may be distributed in the form of dividends upon approval of the shareholders. There are no similar provisions for IFRS.

Under IFRS, a statement of recognized income and expenses can be presented including net income as well as other items of income and expense recognized directly in equity such as: (i) fair value gains (losses) on lands and buildings, intangible assets, available for sale investments and certain financial instruments, (ii) foreign exchange translation differences, (iii) the cumulative effect of a change in accounting policy, and (iv) change in fair value on certain financial instruments if designated as cash flow hedges.

Financial Derivative Instruments

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, for periods from June 30, 2002, the accounting principles prescribed by the Brazilian Corporate Law specifically applicable to accounting and reporting for marketable and equity securities and derivative financial instruments have been amended by accounting practices established by the Central Bank for all financial institutions. According to the accounting principles established by the Central Bank, derivative financial instruments are classified based on management's intention to use them for hedging or non-hedging purposes.

Transactions involving derivative financial instruments to meet customer needs or for own purposes that did not meet hedging accounting criteria established by the Central Bank and primary derivatives used to manage the overall exposures are accounted for at fair value with unrealized gains and losses recognized currently in earnings.

Derivative financial instruments designed for hedging or to modify characteristics of assets or liabilities and (i) highly correlated with respect to changes in fair value in relation to the fair value of the item being hedged, both at the inception date and over the life of the contract and (ii) effective at reducing the risk associated with the exposure being hedged, are classified as hedges as follows:

- *Fair value hedge.* The financial assets and liabilities and the related derivative financial instruments are accounted for at fair value and offsetting gains or losses recognized currently in earnings; and
- *Cash flow hedge.* The effective hedge portion of the derivatives is accounted for at fair value and unrealized gains and losses recorded as a separate component of shareholders' equity, net of applicable taxes. The non-effective hedge portion is recognized currently in earnings.

IAS 39 "Financial Instruments: Recognition and Measurement" requires that a company recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. Derivatives that are not designated as part of a hedging relationship must be adjusted to fair value through income.

Certain robust conditions including specified documentation requirements must be met in order to designate a derivative as a hedge. If the derivative is a hedge, depending on the nature of the hedge, the effective portion of the hedge's change in fair value is either: (i) offset against the change in fair value of the hedged asset, liability or firm commitment through income; or (ii) held in equity until the hedged item is recognized in income. The ineffective portion of a hedge's change in fair value is immediately recognized in income.

Revaluation of Property, Plant and Equipment

Revaluations may be recorded under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank providing certain formalities are complied with. The revaluation increment, normally net of deferred tax effects, is credited to a reserve account in shareholders' equity. As from July 1, 1995 companies may opt to carry property, plant and equipment at cost, monetarily adjusted up to December 31, 1995, or at appraised values, in which case the revaluations must be performed at least every four years and should not result in an amount higher than the value expected to be recovered through future operations. Deferred taxes must be recognized, on revaluation increments as from July 1, 1995. Amortization of the asset revaluation increments are charged to income and an offsetting portion is relieved from the revaluation reserve in shareholders' equity and transferred to retained earnings as the related assets are depreciated or upon disposal.

Under IFRS, companies may use either the historical cost or carry their property, plant and equipment ("PP&E") at revalued amounts (based on fair value) as the accounting basis. When the revaluation model is selected, revaluations should be made with sufficient regularity. If an item of PP&E is revalued, the entire class of PP&E to which the asset belongs is required to be revalued. All revalued assets, including land, are subject, at the effective income tax rate from the sale of the asset, to deferred income tax. Gains and losses from the sale or disposal of assets are recorded as operating expenses.

Loan Accounting and Disclosure

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, loans are generally carried at cost. Up to March 31, 2000 when changes were introduced by the Central Bank, loans were classified as overdue or doubtful based on the extent to which they were secured and the length of time for which payments were in arrears. Specific minimum allowances were required based on whether they were unsecured or not and the time overdue. As from March 31, 2000, loans should be categorized in 9 categories and the minimum allowance is determined by applying specific percentages to the loans in each category.

Loans are classified in accordance with management's judgment of the risk level, taking into account the economic situation, past experience and specific risks in relation to the transactions, the debtors and the guarantors, complying with the parameters established by CMN Resolution No. 2,682 of December 21, 1999, as amended, which requires periodic analysis of the portfolio and its classification, by risk level, in 9 categories between AA (minimum risk) and H (maximum risk – loss). The minimum allowance is determined by applying specific percentages to the loans in each category.

Income from credit operations overdue for more than 60 days, independently of their risk level, is only recognized as revenue when effectively received. Operations classified as level H remain in such classification for nine months, after which time the loan is charged against the existing allowance and remain controlled in memorandum accounts for five years, no longer appearing in the balance sheet.

At a minimum, renegotiated loans are maintained at the same level at which they were classified prior to renegotiation. Renegotiated credit operations, which had already been charged against the allowance for loan losses and were in memorandum accounts, are classified as level H and any eventual gains resulting from the renegotiation of loans previously charged off are recognized as revenue on a cash basis.

Under IFRS, according to IAS 39 “Financial Instruments: Recognition and Measurement,” loans and receivables are defined as financial assets with fixed or determinable payments not quoted in an active market. Loans and receivables are measured at amortized cost.

If there is objective evidence that an impairment loss on loans and receivables investments has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

Income Taxes

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, the methods adopted for the recording of income taxes are similar to IFRS but their practical application may lead to different results in certain circumstances. The recognition of tax credits derived from temporary differences and tax losses is an area that requires considerable judgment. In general, tax credits are recognized when there is evidence of future realization in a continuous operation, potential effects of Provisional Measures enacted by the Brazilian Government are evaluated and the effects of increases in enacted tax rates on deferred taxes may not be integrally recognized if the related legislation is being questioned. On December 30, 2002, the Central Bank issued Circular No. 3,171, as amended, which revoked Circular No. 2,746, that: (i) requires specific supporting analysis to recognize deferred tax assets; (ii) requires as a condition to recognize deferred tax assets a history of profitability presenting taxable income in three out of five fiscal years (including the year being reported); and (iii) prohibits recognition of deferred tax assets if it is expected that they will be realized in more than 5 years as from the reporting date. On March 31, 2006, Resolution No. 3,355 changed the period from 5 to 10 years for the realization of such tax credit.

Under IFRS, the liability method is used to calculate the income tax provision, as specified in IAS 12, “Income Taxes.” Under the liability method, deferred tax assets or liabilities are recognized with a corresponding charge or credit to income for differences between the financial and tax basis of assets and liabilities to each year/period end. Deferred taxes are computed based on the enacted or substantially enacted tax rate of income taxes. Net operating loss carry forwards arising from tax losses are recognized as assets. The deferred tax asset shall be recognized to the extent that it is probable that future taxable profit will realize such deferred tax asset.

Dividends and Interest Attributable to Shareholders’ Equity

Subject to certain limitations, accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank permits companies to distribute or capitalize an amount of interest on shareholders’ equity based on the TJLP. Such amounts are deductible for tax purposes and are presented as a direct reduction of shareholders’ equity. By the end of the year, management is required to propose payment of dividends in those years which realize a profit, unless such profit has been absorbed by any accumulated losses. The entire proposed amount is accounted for as a liability at the balance sheet date.

Under IFRS, both the minimum dividends required by law and/or included in the entity’s by-laws meet the definition of present obligation and, therefore, should be accounted for at the end of the year.

Cash and Cash Equivalent

Under accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, cash equivalents are defined in broader terms than in the context of IFRS, with no limitation of 90 days/three months original maturity. Cash equivalents in Brazil are usually readily available funds which involve cash and overnight applications and may include long term securities which can be negotiated in the secondary market.

Under IFRS, cash equivalents are defined as short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Generally, only investments with original maturities of three months or less qualify under that definition held for the purposes of meeting short term cash commitments rather than for investment or other purposes.

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Consolidated Financial Statements

Banco BTG Pactual S.A. and subsidiaries

December 31, 2012

with independent auditors' report on financial statements

BANCO BTG PACTUAL S.A and subsidiaries

Consolidated financial statements

December 31, 2012

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Independent auditors' report on financial statements

To the
Board of Directors and Shareholders of
Banco BTG Pactual S.A.
São Paulo - SP

We have audited the accompanying consolidated financial statements of Banco BTG Pactual S.A., which comprise the consolidated balance sheet as at December 31, 2012 and the related consolidated statements of income, changes in shareholders' equity and consolidated cash flows for the year then ended, and a summary of significant accounting practices and other explanatory notes to financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Bank's consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco BTG Pactual S.A. as at December 31, 2012, the consolidated performance of its operations and its consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil.

Emphasis

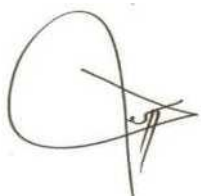
As of December 31, 2012, jointly controlled subsidiary Banco Panamericano S.A. has income and social contribution deferred tax assets amounting to R\$ 3,014 million, recognized substantially on the basis of financial projections and business plan reviewed on December 31, 2012 and approved by its Board of Directors. The realization of these tax credits depends on delivery of these projections and business plan as approved by the management bodies of Banco Panamericano S.A.

Other matters

We also have audited the Bank's consolidated statement of value added (SVA), for the year ended December 31, 2012, prepared under the responsibility of Bank's management, the presentation of which is required by Brazilian Corporate Law for publicly-held companies, and as supplementary information under the accounting practices applicable to institutions accredited authorized to operate by the Central Bank of Brazil. This statement have been subject to the same audit procedures previously described, and in our opinion, is fairly presented, in all material respects, in relation to the overall consolidated financial statements.

São Paulo, February 19, 2013

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6



Flávio Serpejante Peppe
Partner

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at December, 31

(In thousands of reais)

	Note	2012	2011
Assets			
Current assets		109,116,824	72,109,850
Cash at banks	6	552,168	517,305
Short-term interbank investments	7	23,961,103	19,568,249
Open market investments		22,051,078	18,624,436
Interbank deposits		1,910,025	943,813
Securities and derivative financial instruments		69,143,845	38,630,309
Own portfolio	8	29,755,046	14,157,694
Subject to repurchase agreements	8	30,586,402	21,055,304
Subject to unrestricted repurchase agreements	8	48,062	12,560
Subject to Central Bank	8	53,515	-
Derivative financial instruments	9	6,925,746	2,582,253
Subject to guarantees	8	1,775,054	822,498
Interbank transactions		473,130	874,879
Deposits in the Central Bank of Brazil		472,502	874,053
Correspondent banks		628	826
Loans	10	3,593,542	2,972,442
Loans – private sector		3,577,012	3,014,674
Transferred Loans		155,813	-
Allowance for loan losses		(139,283)	(42,232)
Other receivables		11,369,880	9,521,541
Credits for guarantees honored	11	178	-
Foreign exchange portfolio	11	2,126,610	145,565
Income receivable	12	952,641	356,677
Securities trading and brokerage	11	3,885,607	4,402,981
Sundry	12	5,377,431	5,240,085
Allowance for losses on other receivables	10	(972,587)	(623,767)
Other assets		23,156	25,125
Other assets		20,467	18,591
Prepaid expenses		13,369	6,534
Provision for losses		(10,680)	-
Long-term-assets		10,702,635	8,496,825
Long-term interbank investments	7	7,812	14,787
Interbank deposits		7,812	14,787
Securities and derivative financial instruments		5,058,842	4,263,594
Own portfolio	8	774,997	2,375,915
Derivative financial instruments	9	958,424	475,107
Subject to repurchase agreements	8	2,268,007	-
Subject to guarantees	8	1,057,414	1,412,572
Interbank transactions		1,853	1,853
Restricted credits – National Housing System		1,853	1,853
Loans	10	3,675,034	1,692,638
Loans – private sector		3,717,211	1,732,754
Allowance for loan losses		(42,177)	(40,116)
Other receivables		1,946,784	2,523,953
Foreign exchange portfolio	11	-	630,610
Income receivable	12	-	34,805
Securities trading and brokerage	11	134	781
Sundry	12	1,948,176	1,897,121
Allowance for losses on other receivables	10	(1,526)	(39,364)
Other assets		12,310	-
Prepaid expenses	11	12,310	-
Permanent assets		3,496,849	1,405,334
Investments		2,528,795	1,131,018
Investments in associates and jointly controlled entities	13	2,435,184	1,125,292
Other investments		96,598	8,713
Allowance for losses		(2,987)	(2,987)
Property and equipment in use		95,695	58,403
Property in use		8,142	-
Other property and equipment in use		153,907	100,539
Accumulated depreciation		(66,354)	(42,136)
Deferred charges		17,015	12,371
Amortization and expansion costs		45,546	28,801
Accumulated amortization		(28,531)	(16,430)
Intangible assets	14	855,344	203,542
Other intangible assets		967,960	208,940
Accumulated amortization		(112,616)	(5,398)
Total assets		123,316,308	82,012,009

The accompanying notes are an integral part of the financial statements.

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at December, 31

(In thousands of reais)

	Note	2012	2011
Liabilities			
Current liabilities		96,228,552	64,936,753
Deposits	15	12,869,362	11,512,454
Demand deposits		283,551	1,574,208
Interbank deposits		578,706	572,761
Time deposits		12,007,105	9,365,485
Open market funding	15	52,441,102	39,060,989
Own portfolio		32,017,974	22,838,450
Third-party portfolio		16,837,363	13,692,426
Free trading portfolio		3,585,765	2,530,113
Funds from securities issued and accepted	15	2,918,641	1,703,462
Real estate, mortgage, credit and similar notes		1,750,373	1,518,581
Securities issued abroad		1,168,268	184,881
Interbank transactions		389	30
Unsettled receipts and payments		389	30
Loans and onlending	15	1,403,295	916,591
Loans abroad		1,394,768	875,094
Onlending in Brazil		8,527	41,497
Derivative financial instruments	9	7,155,827	2,523,524
Derivative financial instruments		7,155,827	2,523,524
Other liabilities		19,439,936	9,219,703
Collection and payments of tax and similar charges		4,757	2,666
Foreign exchange portfolio	11	1,588,379	224,381
Social and statutory	16	1,118,925	552,761
Tax and social security	16	818,519	238,783
Securities trading and brokerage	11	14,572,799	7,921,906
Sundry	16	1,336,557	279,206
Long-term liabilities		16,786,304	10,491,697
Deposits	15	1,754,645	2,698,606
Interbank deposits		48,372	3,644
Time deposits		1,706,273	2,694,962
Open market funding	15	209,565	-
Own portfolio		209,565	-
Funds from securities issued and accepted	15	5,561,448	2,071,169
Real estate, mortgage, credit and similar notes		4,055,599	1,106,410
Securities issued abroad		1,505,849	964,759
Loans and onlending	15	501,441	3,125
Onlending in Brazil		501,441	3,125
Derivative financial instruments	9	907,855	430,265
Derivative financial instruments		907,855	430,265
Other liabilities		7,851,350	5,288,532
Social and statutory	16	76,675	445
Tax and social security	16	653,369	521,157
Securities trading and brokerage	11	2,800	8,128
Subordinated debt	15	6,246,109	4,158,295
Sundry	16	872,397	600,507
Deferred income		111,917	31,590
Non-controlling interest		88,068	212,207
Shareholders' equity	19	10,101,467	6,339,762
Capital - domiciled in Brazil		4,510,876	2,132,664
Capital - domiciled Abroad		1,843,499	838,686
Capital increase		52,488	271,150
Income reserves		3,694,604	3,097,262
Total Liabilities and Shareholders' equity		123,316,308	82,012,009

The accompanying notes are an integral part of the financial statements.

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income

Years ended December 31

(In thousands of reais)

	Note	2012	2011
Financial income		8,582,858	6,050,154
Loans		1,333,628	945,572
Securities		6,773,173	4,589,133
Derivative financial instruments		296,432	225,031
Foreign Exchange		116,469	249,322
Mandatory investments		63,156	41,096
Financial expenses		(5,277,224)	(4,549,660)
Funding operations		(4,227,677)	(4,002,023)
Borrowing and onlending		(581,250)	(517,615)
Allowance for loan losses and other receivables		(468,297)	(30,022)
Net financial income		3,305,634	1,500,494
Other operating income (expenses)		454,405	174,399
Income from services rendered	20	2,219,149	1,107,568
Personnel expenses		(605,684)	(359,663)
Other administrative expenses	23	(677,920)	(355,462)
Tax charges		(283,864)	(286,040)
Equity in the earnings of associates and jointly controlled entities	13	245,786	(3,531)
Other operating income	21	109,023	158,100
Other operating expenses	22	(552,085)	(86,573)
Operating income		3,760,039	1,674,893
Non-operating income		(12,001)	9,217
Income before taxation and profit sharing		3,748,038	1,684,110
Income tax and social contribution	18	(727,458)	199,099
Provision for income tax		(607,469)	(116,641)
Provision for social contribution		(285,694)	(54,625)
Deferred income tax and social contribution		165,705	370,365
Statutory profit sharing		(938,207)	(401,229)
Non-controlling interest		(21,136)	(4,960)
Net income for the year		2,061,237	1,477,020
Interest on equity	19	(440,000)	(319,000)
Weighted average numbers of share outstanding		2,576,108,185	2,400,000,000
Net income per share - R\$		0.80	0.63

The accompanying notes are an integral part of the financial statements.

Statements of changes in shareholders equity – Parent company
Years ended December 31
(In thousands of reais, except for dividends per share)

Reconciliation of net income (loss) and shareholders equity of Banco BTG Pactual S.A. and subsidiaries is presented in Note 19(f).

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BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of cash flows

Years ended December 31

(In thousands of reais)

	Note	2012	2011
Operating activities			
Net income for the year		2,061,237	1,477,020
Adjusts to net income		174,739	22,221
Equity in the (earnings)/losses of associates and jointly controlled entities	13	(245,786)	3,531
Goodwill amortization	22	394,253	-
Depreciation and amortization	23	26,272	18,690
Adjusted net income for the year		2,235,976	1,499,241
Increase/decrease in operational assets and liabilities			
Short-term interbank investments		537,601	969,309
Securities and derivative financial instruments		(26,443,176)	(6,044,000)
Loans		(2,603,496)	(963,406)
Other receivables and other assets		(1,088,578)	(6,186,598)
Interbank transactions		359	(742,557)
Other liabilities		9,533,577	2,617,126
Deferred income		80,327	7,300
Deposits		412,946	3,637,516
Open market funding		13,567,817	(2,127,930)
Loans and onlending		985,020	764,455
Cash provided by operating activities		(2,781,627)	(6,569,544)
Investing activities			
Acquisition of other investment		(69,502)	(1,094)
Sale of investments		240,007	296
Acquisition of equity interests		(50,804)	(1,128,823)
Dividends received		27,436	-
Acquisition of property and deferred charges		(109,858)	(122,918)
Sale of property and deferred charges		9,180	250,022
Acquisition/sale of intangible assets		(266,528)	(31,908)
Business acquisition, net cash		(943,058)	-
Cash (used in) investing activities		(1,163,127)	(1,034,425)
Financing activities			
Funds from securities issued and accepted		4,705,457	2,469,133
Capital increase due to share issuance		2,461,875	-
Capital increase		52,488	271,150
Non-controlling interest		(2,926)	212,207
Interest on equity	19	(220,000)	(319,000)
Subordinated debt		2,087,814	-
Dividends distributed	19	(181,610)	(692,000)
Cash provided by financing activities		8,903,098	1,941,490
Increase in cash and cash equivalents		4,958,344	(5,662,479)
Balance of cash and cash equivalents	25		
At the beginning of the year		12,487,417	18,149,896
At the end of the year		17,445,761	12,487,417
Increase in cash and cash equivalents		4,958,344	(5,662,479)
Noncash transactions		2,358,493	-
Interest on equity		220,000	-
Dividends distributed		192,285	-
Capital contribution - Banco Panamericano S.A.		495,477	-
Incorporation - One Properties S.A. by BR Properties S.A.		1,450,731	-

The accompanying notes are an integral part of the financial statements.

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of value added

Years ended December 31

(In thousands of reais)

Income	9,878,646	7,238,467
Financial brokerage	8,582,858	5,836,108
Services rendered	2,219,149	1,107,568
Allowance for loan losses and other receivables	(468,297)	294,791
Other	(455,064)	-
Expenses	(4,808,927)	(4,549,660)
Financial brokerage	(4,808,927)	(4,549,660)
Inputs acquired from third parties	(588,319)	(313,446)
Materials, energy and other	(67,664)	(8,386)
Outsourced services	(520,655)	(305,060)
Gross value added	4,481,400	2,375,361
Depreciation and amortization	(26,272)	(18,690)
Net value added produced by the entity	4,455,128	2,356,671
Value added received through transfer	245,786	(3,531)
Equity in the earnings of associated companies and jointly controlled entities	245,786	(3,531)
Value added to be distributed	4,700,914	2,353,140
Distribution of value added	(4,700,914)	(2,353,140)
Personnel	(1,465,793)	(760,892)
Direct compensation	(1,421,215)	(727,028)
Benefits	(32,260)	(22,414)
FGTS – government severance pay fund	(12,318)	(11,450)
Taxes, fees and contributions	(1,089,420)	(86,933)
Federal	(1,014,196)	(46,969)
Municipal	(75,224)	(39,964)
Remuneration of third party capital	(63,328)	(23,336)
Rent expenses	(63,328)	(23,336)
Remuneration of shareholders	(2,082,373)	(1,481,979)
Interest on equity	(440,000)	(319,000)
Dividends	(373,895)	(692,000)
Retained earnings	(1,247,342)	(466,019)
Non-controlling interest	(21,136)	(4,960)

The accompanying notes are an integral part of the financial statements

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

Years ended December 31

(In thousands of reais)

1. Operations

Banco BTG Pactual S.A. (Bank) is incorporated as a multiple bank, operating jointly with its subsidiaries (the Group), offering financial products and services relating to commercial, including exchange, and investment portfolios, credit, financing and investment, leasing and real estate loans.

The transactions are conducted as part of a group of institutions fully participating in the financial market, and certain transactions are intermediated by other institutions of the BTG Pactual Group.

On April 30, 2012, BTG Pactual Group completed its primary public offering (IPO), issuing 82,800,000 units at a price of R\$ 31.25 (thirty-one reais and twenty five cents) per unit. In that transaction, the Bank issued 248,400,000 shares, representing a capital increase by R\$ 2,070 million and generating cash net of costs of commissions, fees and taxes of R\$ 2,018 million.

The financial statements were approved by Bank's Management in February 19, 2013.

2. Corporate reorganization

Corporate reorganization

On December 31, 2012, BTG Pactual Gestora de Recursos Ltda ("BTG Pactual Gestora"), subsidiary of BTG Pactual Asset Management S.A. DTVM, merged Brazilian Capital with the objective to simplify the corporate structure and consequently reduce financial and operational costs. As a consequence, BTG Pactual Gestora amortized the remaining goodwill in the amount of R\$ 112,000 and increased its shareholders' equity in the amount of R\$ 84,247 due to the deferred income tax asset recognized on the goodwill amortization.

On December 20, 2012, the subsidiary BTG Pactual SA SEG Holding SUSEP received authorization to offer insurance products in Brazil.

On March 29, 2012, Saíra Diamante Empreendimentos Imobiliários S.A. ("Saíra"), Wtorre Empreendimentos Imobiliários S.A. ("Wtorre") and BR Properties S.A. ("BR Properties") approved the operation involving successive mergers of Saíra and its jointly-controlled investee with Wtorre, One Properties S.A., into BR Properties. After the closing of the transaction the Bank held 28% of interest on BR Properties equity and accounts for this investment by the equity method (see note 13).

On December 31, 2011, following with BTG Group's restructuring process, the Bank proceeded with the merger of its controlling company Copacabana Prince Participações S.A. As a result of such transaction, R\$ 481,369 were accounted relating to the tax benefit relating to goodwill originally registered at Copa Prince.

On December 14, 2011 the merger of BTG Pactual Participações II S.A. by the Bank approved, without resulting in the capital increase of the Bank.

On July 27, 2011, the Central Bank of Brazil (Banco Central do Brasil, Bacen) approved the indirect acquisition by the Bank of the shares representing the total capital of (i) BTG Pactual Asset Management Corp USA, established in New York, USA; (ii) BTG Pactual Asia Ltd, domiciled in Hong Kong, China; (iii) BTG Pactual Capital Corp USA, incorporated in

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

Years ended December 31

(In thousands of reais)

Delaware, USA; (iv) BTG Pactual Global Asset Management Ltd, domiciled in Bermuda; (v) BTG Pactual Carry LP, domiciled in George Town, Ilhas Cayman, (vi) and of 99.3% of shares representing the capital BTG Pactual Europe LLP, domiciled in London, England. These transactions were approved in the Ordinary General Shareholders Meeting held on August 31, 2011. Previously, the controlling company of such companies was BTG Investments LP. As they are companies belonging to the same economic group, no premium or discount was verified in these transactions.

On June 15, 2011, the subsidiary of BTG Pactual Banking Limited, located in the Cayman Islands, was transformed into the Bank's branch.

Acquisitions

On December 20, 2012 the Bank concluded the purchase of all of the outstanding shares of Bolsa y Renta for a total consideration of US\$ 58.4 million (approximately R\$ 120.5 million). The former owners of Bolsa y Renta acquired equity interest in Banco BTG Pactual for US\$ 25.4 million (R\$ 52.5 million), representing approximately 0.25% of the capital stock in the Bank. For accounting purposes, the acquisition date of Bolsa y Renta was December 31, 2012 and the goodwill recorded in the transaction was US\$ 22.7 million (R\$ 47.1 million), based on expected future profitability.

On February 8, 2012, the Bank announced the agreement for the acquisition of 100% of the outstanding shares of Celfin Capital (Celfin), operating in Chile, Peru and Colombia. On November 13, 2012 the Bank paid to the owners of Celfin US\$451 million (approximately R\$ 930 million) in cash, of which US\$ 190 million (approximately R\$ 392 million) were used to purchase shareholding interest of the Bank by Celfin's shareholders, representing 2.2% of the capital. In the transaction, goodwill of US\$ 352 (approximately R\$ 726 million) was recorded, based on expected future profitability.

On January 31, 2012, the Bank and Banco Panamericano entered into a definitive agreement to purchase 100% of the shares of Brazilian Finance & Real Estate S.A. (BFRE), for approximately R\$1.2 billion, of which R\$ 940 million was paid by Banco Panamericano and R\$ 270 million was paid by the Bank. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The company acquired by the Bank, the Brazilian Capital Companhia de Gestão de Investimentos, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In this transaction the Bank recorded goodwill of R\$ 248 million, based on expected future profitability, which was amortized in R\$ 136 million until December 31, 2012 due to profitability recognized. Additionally, the Bank acquired quotes of Real State Funds owned by BFRE, in the amount of R\$ 335 million.

On November 22, the agreement between the Bank and WTorre Properties S.A. ("WTorre") was concluded. Due to this agreement, the Bank now holds, indirectly through its subsidiary Saira Diamante S.A., 49,99% of the corporate interest in One Properties S.A. (previously referred to as WTorre). In this transaction, Saira contributed R\$ 627,452 in assets, originally held by the Bank. In this transaction, the Bank recorded a goodwill of R\$ 320,956, based on expected future profitability.

On September 2011, the full subsidiary, Coomex proceeded with the reverse merged of its controlled company BTG Pactual Agente Comercializador de Energia Ltda. As a result, the Group recorded a tax benefit of R\$ 54,813.

On June 17, 2011, Banco BTG Pactual S.A. presented to the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários, CVM), a request for registration of tender offer of preferred shares issued by Panamericano to the remaining shareholders, for the same price paid for the share to the previous controlling shareholder. As the necessary adhesion did not occur, the program was terminated.

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

Years ended December 31

(In thousands of reais)

On May 27, 2011, the Bank acquired all shares of Silvio Santos Group in Banco Panamericano S.A. (Panamericano), representing 37.64% of the retail institution, resulting from an interest of 51% in ordinary shares and 21.97% in preferred shares. Upon conclusion of this transaction and the corresponding BACEN approval, the Bank and the Caixa Econômica Federal (CEF), now hold a shared control over Panamericano, as defined by shareholders agreement.

3. Presentation of the financial statements

The Bank's and its subsidiaries' financial statements were prepared in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil (BACEN), in accordance with the standards and instructions of the National Monetary Council (CMN), BACEN and Securities and Exchange Commission (CVM), when applicable.

The Bank's consolidated financial statements include the financial statements of the Bank, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, investment funds and specific purpose entities (SPE).

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil requires Management to use its judgment to determine and record accounting estimates. Assets and liabilities subject to these estimates and assumptions primarily relate to deferred income tax assets and liabilities, to the allowance for loan losses and other receivables, the provision for taxes and contributions with suspended eligibility and the provision for contingent liabilities. The settlement of transactions involving these estimates may result in amounts that differ from those estimated due to inaccuracies inherent in determination. The Bank and its subsidiaries periodically review these estimates and assumptions.

a. Consolidated financial statements

In the process consolidated financial statements were eliminating the intercompany balances of assets and liabilities, revenues, expenses and unrealized profit, and includes the portions of net income (loss) and shareholders' equity relating to non-controlling interest.

Goodwill calculated on the acquisition of investment in subsidiaries is recognized in intangible assets, whereas negative goodwill is recognized in deferred income. Goodwill calculated on the acquisition of joint controlled subsidiaries is recognized in investments.

Jointly-controlled investments are recognized by the equity method of accounting.

The subsidiaries consolidated and investment funds on the Bank's financial statements, are as follows:

	Country	Equity interest - %	
		12/31/2012	12/31/2011
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Mercadorias Ltda.	Brazil	99.99	99.99
BTG Pactual Securitizadora S.A.	Brazil	99.99	99.99
BTG Pactual Comercializadora de Energia Ltda.	Brazil	99.90	99.99
BTG Pactual Holding International S.A.	Brazil	99.99	99.99
BTGP Recovery Holdings S.A. (i)	Brazil	-	99.99

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

Years ended December 31

(In thousands of reais)

	Country	Equity interest - %	
		12/31/2012	12/31/2011
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
Saíra Diamante Empreendimento e Participações S.A. (Nota 2)	Brazil	-	92.00
BTG Pactual Vivere Participações S.A. (v)		-	100.00
Vivere Soluções e Serviços S.A. (v)		30.00	-
Global Ltd.	Cayman	100.00	100.00
BW Properties S.A.	Brazil	67.49	67.49
G.U.A.S.P.E S.A (ii)	Brazil	99.99	-
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	-
BTG Pactual Chile SPA (iii)	Chile	100.00	-
Bolsa y Renta S.A. (iv)	Colombia	99.99	-
Recovery do Brasil Consultoria S.A. (i)	Brazil	50.24	-
Celfin International Ltd. (iii)	Cayman	100.00	-
Indirect subsidiaries			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Corporate Services Ltda.	Brazil	99.99	99.99
BTG Pactual Serviços Energéticos Ltda.	Brazil	100.00	100.00
BTG Pactual NY Corporation	USA	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	100.00
BTG Pactual Europe LLP	England	100.00	100.00
BTG Pactual Asset Management US, LLC	USA	100.00	100.00
BTG Pactual US Capital, LLC	USA	100.00	100.00
BTG Pactual Asia Limited	Hong Kong	100.00	100.00
BTG Global Asset Management (UK) Limited	England	100.00	100.00
Recovery do Brasil Consultoria S.A. (i)	Brazil	-	50.24
FC DAS S.A. (i)	Uruguay	-	100.00
BTG Pactual SEG Holding S.A.	Brazil	100.00	-
BTG Pactual RE Holding S.A.	Brazil	100.00	-
Celfin Capital S.A. (iii)	Chile	100.00	-
Celfin Capital S.A. Corredores de Bolsa (iii)	Chile	100.00	-
Celfin Capital Administradora de Fondos de Capital Extranjero S.A (iii)	Chile	100.00	-
Celfin Capital S.A. Administradora General de Fondos (iii)	Chile	100.00	-
Celfin Capital S.A. Sociedad Agente de Bolsa (iii)	Peru	100.00	-
Celfin Capital S.A. Sociedad Administradora de Fondos Inversion (iii)	Peru	100.00	-
Celfin Capital S.A. Sociedad Comissionista de Bolsa (iii)	Colombia	100.00	-
Laurel Sociedad Gestora Profissional S.A.S (iv)	Colombia	100.00	-
Investment funds			
BTG Pactual Absolute Return II Master Fund LP	Cayman	100.00	100.00
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Port Fund SPC - CLASS C	Cayman	100.00	99.83
Fundo de Investimento em Direitos Creditórios Não Padronizados Precatórios Seleccionados I	Brazil	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados NPL I	Brazil	70.75	100.00
BTG Pactual Saúde Fundo de Investimento em Participações	Brazil	95.67	100.00
Nala Fundo de Investimento em Participações	Brazil	100.00	100.00
BTG Pactual Global Fund	Cayman	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados Caixa BTG Pactual Multisegmentos	Brazil	100.00	100.00
BTG Pactual Gewinnstrategie Fundo de Investimento Multimercado Crédito Privado	Brazil	100.00	100.00
Fundo de Investimento em Participações Quartzo	Brazil	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00

(i) In 2012, BTGP Recovery Holdings S.A. and FC DAS S.A. were merged by Recovery do Brasil Consultoria S.A.

(ii) Non-operational company.

(iii) Companies acquired on Celfin's transaction (Note 2).

(iv) Companies acquired on Bolsa y Renta's transaction (Note 2).

(v) In 2012, BTG Pactual Vivere Participações S.A. were merged by Vivere Soluções e Serviços S.A.

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
Years ended December 31
(In thousands of reais)

b. Functional currency

The items included in the Bank's financial statements are measured using the currency of the main economic environment in which the Bank operates (functional currency). The consolidated financial statements are presented in Reais (R\$), which is the functional currency of the controller, the Bank. Assets and liabilities were translated into reais at the rate prevailing at the reporting date, while income and expense accounts were translated at the average rate of the month.

The financial statements of the companies abroad, originally stated in their functional currencies were translated into reais at the foreign exchange rates generally US dollar on the reporting dates.

The effects of foreign exchange variations on investments abroad are distributed in the income statement accounts according to their respective nature.

4. Significant accounting practices

The most significant accounting practices adopted by the Bank and its direct and indirect subsidiaries are the following:

a. Cash and cash equivalents

For the purposes of statements of cash flow, cash and cash equivalents include, pursuant to CMN Resolution 3604/08, cash, bank deposits and highly-liquid short-term investments redeemable in up to 90 days, subject to an insignificant risk of change in value

b. Short-term interbank investments, remunerated deposits at the Central Bank of Brazil, remunerated deposits, open market funding, funds from securities issued and accepted, loans and onlending, subordinated debts and other asset and liability transactions

The transactions with clauses of adjustment for inflation/exchange rate adjustment and transactions with fixed interest rates are recorded at present value, net of transaction costs, calculated on a *pro rata die* basis, based on the effective rate of the transactions.

c. Securities

Measured and classified in accordance with the criteria established by BACEN Circular Letter 3068/01 of November 8, 2001, under the following categories:

i. Trading securities

Acquired with the purpose of being actively and frequently traded. Trading securities are recognized at cost plus income earned, and adjusted to fair value.

ii. Available for sale securities

These are securities that are neither classified as trading securities nor as held-to-maturity securities. They are stated at cost, plus income earned, with a corresponding entry to income (loss), and subsequently adjusted to fair value, with a

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

Years ended December 31

(In thousands of reais)

corresponding entry to a separate account under shareholders' equity, net of tax effects, which will only be recognized in income (loss) after the effective realization.

iii. Held-to-maturity securities

These are securities that the Bank has intention and ability to hold to maturity. They are stated at cost, plus income earned, with a corresponding entry to income (loss) for the year. Decreases in the fair value of available-for-sale and held-to-maturity securities below their respective restated costs, related to non-temporary reasons, will be recognized in income (loss) as realized losses.

According to BACEN Circular Letter 3068/01, trading securities are recorded in the balance sheet, in current assets, regardless of their maturity.

d. Derivative financial instruments

These are classified according to Management's intention, on the transaction date, considering whether such transactions will be conducted to hedge against risk or not.

The transactions using financial instruments performed on their own, or that does not comply with hedge criteria (mainly derivatives used to manage the overall risk exposure), are accounted for at fair value, with gains and losses, realized or not realized, recognized directly in income (loss) for the period.

Derivative financial instruments used to mitigate the risks arising from exposures to changes in the fair value of financial assets and financial liabilities and that are highly correlated in relation to changes in their fair value in relation to the fair value of the hedged item, both in the beginning and throughout the agreement, and deemed as effective in the reduction of risk associated to the exposure to be hedged, are deemed as hedge and are classified according to their nature:

Fair value hedge: financial instruments included in this category, as well as their related hedged financial assets and liabilities, are measured at fair value, and their realized or unrealized related gains or losses are recorded in income (loss) for the period; and

Cash flow hedge: the instruments classified in this category are measured at fair value, and the effective portion of the appreciation or depreciation is recognized in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recognized in income (loss) for the period

e. Fair value of securities, derivative financial instruments and other rights and obligations

The fair value of securities, derivative financial instruments and other rights and obligations, whenever applicable, is calculated based on market price, price evaluation models, or based on the price determined for other financial instruments with similar characteristics. Therefore, at the time of financial settlement of these transactions, results may differ from the estimates. The daily adjustments of transactions performed in the futures market are recorded as effective income and expense when generated or incurred. The premium paid or received upon performance of transactions in the stock option market, other financial assets and commodities are recorded in the respective assets accounts for amounts paid or received, adjusted at market price against their results.

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The transactions performed in the forward market of financial assets and commodities are registered by the final retained value, adjusted for the difference between this amount and the price of the good or right adjusted at market prices, at the appropriate assets or liabilities account. The income and expenses are recorded according to the duration of their agreements.

Assets and liabilities resulting from swap and currency forward transactions of non-delivery forward agreements (NDF) are recognized in assets and liabilities at their carrying amount, adjusted at fair value, with a corresponding entry to income (loss).

The notional amount of the agreements is recognized in off-balance sheet accounts.

f. Financial instruments – net presentation

Financial assets and liabilities are stated at their net amounts in the balance sheet if, and only if, there is a current legally enforceable right to offset the amounts recognized and if there is an intention to simultaneously realize the asset and settle the liability.

g. Sale or transfer of financial assets with substantial retention of risks and benefits

As of 2012, the transactions of sale or transfer of financial assets when the entity has retained substantially all the risks and benefits of operations, remains registered in their respective categories of assets, with a liability relating to obligation.

h. Loans and other receivables (operations with credit characteristics)

Recorded at present value, calculated on a *pro rata die* basis on the index variation and on the agreed interest rate, updated up to 59th day of default, provided the expected receipt. As from the 60th day, the recognition in income (loss) occurs at the time of the effective receipts of installments. Renegotiated transactions are maintained at least in the same level in which they were recorded before the renegotiation and, if they had already been written off, they are fully provisioned and gains are recorded in income when actually received.

i. Allowance for loan losses

Recognized based on an analysis of loan risk losses at an amount deemed as sufficient to cover probable losses, pursuant to CMN Resolution 2682, of December 21, 1999, among which:

Allowances are recognized for loans, based on the classification of the client's risk, based on the periodical analysis of client quality and of activity industries and not only upon default.

Considering exclusively the default, written of loans against losses are carried after 360 days from the credit due date or after 540 days, for transactions with term exceeding 36 months.

The allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio, in accordance with the criteria established by CMN Resolution 2682/99.

j. Investments

Jointly-controlled subsidiaries and associated entities are accounted for under the equity method of accounting. Other investments in permanent assets are stated at cost, less allowance for losses, when applicable.

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k. Goodwill and negative goodwill

Goodwill or negative goodwill is calculated based on the difference between the acquisition amount paid and the net carrying amount of the net assets acquired.

Goodwill, based on the basis of expected future results of the acquired subsidiaries, is amortized in line with the cashflow projections underlying the transaction or, when the investment is written off, by disposal or impairment, before projections are achieved.

Negative goodwill is recognized in investments for jointly-controlled companies, and in deferred income to subsidiaries, until the investment is realized.

l. Property plant and equipment in use and deferred charges

These are stated at cost. Depreciation is calculated on a straight-line basis based on the economic useful lives of the assets. Deferred charges correspond mainly to leasehold improvements. Amortization is calculated using the straight-line method over the estimated period of usage and/or lease.

m. Intangible assets

Corresponds to acquired rights that have as their subject intangible assets destined to the entities' maintenance or used for such purpose, in accordance with CMN Resolution 3642, of November 26, 2008. Amortization is calculated using the straight-line basis over the period in which the rights generate benefits.

n. Impairment

Whenever there is clear evidence that the assets are valued at an unrecoverable amount, it is recorded as loss in the results for the year. This procedure is performed at least at the end of each fiscal year.

Assets subject to impairment are deducted, when applicable, of provision for losses that is calculated according to the value in use or fair value less costs to sell the assets. The main estimates used in determining the provision are: expectation of future cash flows, discount rates, illiquidity, among others.

o. Income tax and social contribution

The provisions for income tax and social contribution are recognized based on book income adjusted by additions and deductions provided by the tax legislation. Deferred income tax and social contribution are calculated on temporary differences, whenever the realization of these amounts is considered as probable, at the rate of 15% for income tax, plus a 10% surtax on the annual taxable income exceeding R\$ 240, and 15% for social contribution of financial institutions and 9% for non-financial institutions.

p. Contingent assets and liabilities, and legal, tax and social security obligations

Recognized according to the criteria described below:

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i. Contingent assets

Contingent assets are not recognized in the financial statements, except when there is evidence ensuring their realization and when they are no longer subject to appeals.

ii. Contingent liabilities

Contingent liabilities are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in an legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the notes to the financial statements, while those classified as remote losses do not require the recording of provisions or disclosure.

iii. Legal liabilities – tax and social security

Legal liabilities refer to lawsuits challenging the legality or constitutionality of certain taxes and contributions. The amount under dispute is measured and recorded.

q. Earnings per share

Calculated based on weighted average shares for the periods.

r. Revenue recognition

Revenues and expenses are determined under the accrual method.

s. Reclassification of prior period statements

The Bank has evaluated the presentation of the results with energy trading generated by our subsidiary Coomex and has changed the accounting policies and reclassified these results in comparative financial statements. The reclassification aims to present the results from energy derivatives from Coomex and the Bank in a single line in our income statement. As a result, R\$ 214,046 has been reclassified from "Income from energy trading", presented in "Other operating income" to "Derivatives financial instruments" in the income statement for the year ended December 31, 2011.

5. Risk management

The Bank's committee structure allows for the inputs from the entire organization and ensures that the decisions are implemented effectively. The main committees involved in risk management activities are: (i) Management Committee, which approves policies, defines overall limits and is ultimately responsible for managing risks, (ii) New Business Committee, which assesses the feasibility and supervises the implementation of proposals for new businesses and products, (iii) Credit Risk Committee, which is responsible for approving new loans according to the guidelines set forth by the Bank's Risk Committee, (iv) Market Risk Committee, which is responsible for monitoring market risk, including the use of our risk limits (Value at Risk - VaR), and approving exceptions, (v) Operational Risk Committee, which assesses the main operational risks for the internal policies and regulatory risks established, (vi) ALM (Anti Money Laundering) Compliance Committee, which is responsible for establishing policy rules and reporting potential problems related to money laundering, (vii) CFO Committee, which is responsible for monitoring liquidity risk, including cash and cash

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equivalents and capital structure, (viii) Audit Committee, which is responsible for independent verification of compliance with internal controls and assessment of maintenance of the accounting records.

The Bank monitors and controls risk exposure through several and different supplemental internal systems, including credit, financial, operational, compliance, tax and legal systems. We believe that the involvement of the Committees (including their subcommittees) with management and continuous risk control promotes a strict risk control culture in the organization as a whole. The Bank's commissions comprise senior members of the business units and senior members of the control departments, which do not depend on the business areas.

a. Operating limits

According to the recommendations of the New Capital Accord (Basel II), BACEN disclosed the methodology to calculate the Reference Shareholders' Equity (PR) and the Required Reference Shareholders' Equity (PRE), as of July 1, 2008, through CMN Resolutions 3444/07 and 3490/07. In addition, BACEN Circular Letters 3360/07, 3361/07 to 3366/07, 3368/07, 3383/08, 3388/08 and 3389/08 established the guidelines to determine credit, market and operating risks.

The Basel ratio was calculated based on the financial statements, on a consolidated basis, including all the subsidiaries.

	2012	2011
Reference Shareholders' Equity (PR)	14,593,354	8,430,976
Shareholders' equity – Tier 1	10,249,644	6,331,062
Shareholders' equity – Tier 2	5,124,822	3,165,531
Deductions from the Reference Shareholders' Equity	(781,112)	(1,065,617)
Required Reference Shareholders' Equity (PRE)	9,273,372	5,250,915
Credit risk	5,606,749	3,416,049
Market risk	3,440,807	1,553,458
Operating risk	225,816	281,408
Exceeding Required Reference Equity: (PR-PRE)	5,319,982	3,180,061
Capital adequacy ratio (based index): (PRx100)/PRE/0.11)	17.31%	17.66%

Management elected the basic indicator approach to measure operating risk.

The fixed assets to equity capital ratio, as determined by CMN Resolution 2283/96, amended by Resolution 2669/99 and with the wording of Resolutions 2743/00 and 3426/06, are also calculated on a consolidated basis considering all subsidiaries:

	2012	2011
Reference Shareholders' Equity (PR)	14,593,354	8,430,976
Equity securities	(17,374)	(6)
Reference Shareholders' Equity for fixed assets to equity capital ratio (PR_LI)	14,575,980	8,430,970
Fixed assets to equity capital ratio (50%)	7,287,990	4,215,485
Status for fixed assets to equity capital ratio	5,883,100	3,034,871
Permanent assets	3,463,787	1,409,501
Deferred permanent assets	(6,586)	(8,772)
Equity securities	(17,374)	(6)
Investments in subsidiaries authorized to operate by the Central Bank	(779,577)	(427,132)
Variable income securities recognized in current assets	3,222,850	2,061,280
Margin	1,404,890	1,180,614

As at December 31, 2012 and 2011, all operating limits are duly complied with.

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b. Market risk

VaR is the potential loss of value of the trading positions due to adverse movements in the market during a defined period within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Bank's positions at market risk. The Bank uses a historical simulation for calculation of VaR, applying real distributions and correlation amongst assets, not using Greek approximations and standard distributions. VaR may be measured in accordance with different periods, historical data and reliable levels. The accuracy of the market risk methodology is tested through daily back testing that compares the compliance between VaR estimates and gains and losses realized.

The VaR presented below was calculated for a one-day period, level of level of confidence of 95.0% and one-year historical data. Reliable level of 95.0% means that there is 1 within 20 chances that the day trade net income remains below estimated VaR. Therefore, insufficiencies arising from net income expected from trade in a single day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in a single day may exceed the VaR reported in material amounts. Insufficiencies may also occur more frequently or accrue during a longer period, such as the number of consecutive trading days. As it is backed up by historical data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one-day period does not consider the market risk of positions that may not be settled or offset with hedges within the term of one day. As previously mentioned, the Bank uses a stress test models as a complement to VaR method for its daily risk activities.

The table below contains the Bank's and its subsidiaries' daily average VaR for the years ended:

In millions of R\$	2012	2011	2010
Daily average VaR	60.5	28.4	21.5

c. Credit risk

All of the Bank's and its subsidiaries' counterparties are subject to credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The Bank's counterparties credit limits and its subsidiaries are established by the Credit Committee and are regularly reviewed. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

d. Liquidity risk

The Bank and its subsidiaries manage liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from prime counterparties at extremely competitive rates. The Bank and its subsidiaries maintain a solid capital structure and a low level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

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e. Operating risk

In line with the BACEN guidelines and the Basel Committee concepts, an operating risk management policy applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

The Bank and its subsidiaries have a culture in managing operational risk, which takes into account the assessment, monitoring, simulation and validation of risks, based on consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to comply with the requirements of regulatory agencies, rapidly adjusting to changes and anticipating future trends, among which the New Basel Capital Accord propositions are to be highlighted.

6. Cash at banks

Cash at banks refer basically to deposits abroad in prime banks.

7. Interbank investments

	2012					2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Open market investments	22,051,078	19,829,803	2,221,275	-	-	18,624,436
Own portfolio	1,863,861	1,412,559	451,302	-	-	4,121,337
Federal government bonds	1,401,050	964,062	436,988	-	-	1,572,128
Foreign bonds	14,613	14,613	-	-	-	-
Corporate bonds	113,134	98,820	14,314	-	-	290,066
Foreign government bonds	335,064	335,064	-	-	-	2,259,143
Third-party portfolio	18,308,250	16,997,604	1,310,646	-	-	13,153,965
Federal government bonds	17,181,233	15,870,587	1,310,646	-	-	11,026,064
Corporate bonds	36,070	36,070	-	-	-	-
Foreign government bonds	1,090,947	1,090,947	-	-	-	2,127,901
Short position	1,878,967	1,419,640	459,327	-	-	1,349,134
Federal government bonds	1,443,511	984,184	459,327	-	-	1,056,754
Foreign bonds	67,624	67,624	-	-	-	-
Foreign government bonds	367,832	367,832	-	-	-	292,380
Interbank investments (*)	1,917,837	1,853,762	56,263	7,812	-	958,600
Interbank deposit certificates	1,406,962	1,342,887	56,263	7,812	-	916,457
Investments in foreign currency - overnight	510,875	510,875	-	-	-	42,143
	23,968,915	21,683,565	2,277,538	7,812	-	19,583,036

(*) Refers basically to interbank deposits in prime banks.

As at December 31, 2012 and 2011 the balances above are reported net of corresponding liabilities in the amount of R\$ 9,201,258 and R\$ 6,681,113, according note 4(f).

The collateral received in repurchase agreements amounts to R\$ 31,050,116 (2011 - R\$ 26,884,577), whereas the collateral granted amounts to R\$ 62,749,389 (2011 - R\$ 52,525,794).

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8. Securities

a. By type of portfolio

The breakdown by type of instrument, contractual maturity and type of portfolio is as follows:

	2012							2011
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	30,874,258	30,530,043	7,325,636	3,150,945	4,174,108	2,772,715	13,106,639	16,533,609
Federal government bonds	2,568,557	2,557,416	219,285	140,005	286,423	1,113,630	798,073	2,922,738
Brazilian foreign debt securities	20,911	20,724	-	8,125	3,074	-	9,525	-
Debentures/Eurobonds (i)	6,769,826	6,794,454	24,607	1,288,195	1,116,465	1,212,967	3,152,220	4,293,557
Bank certificates of deposit	117,895	117,895	-	64,330	53,565	-	-	-
Bank credit certificate	48,913	44,921	-	6,255	10,924	-	27,742	100,425
Investment fund quotes								
Shares	106,354	106,354	106,354	-	-	-	-	118,511
Multimarket	1,804,331	1,863,610	1,863,610	-	-	-	-	943,038
FIDC - Credit Rights	223,338	223,338	-	-	223,338	-	-	449,263
Real Estate	629,708	629,708	-	-	629,708	-	-	-
Equity Investment fund	622,918	622,918	-	-	622,918	-	-	838,674
Other	-	-	-	-	-	-	-	1,850
Shares	3,562,263	3,016,600	3,016,600	-	-	-	-	3,584,455
Promissory notes	2,003,746	2,003,745	1,028,475	975,270	-	-	-	956,853
Certificate of real estate receivables	896,031	883,452	848	1,941	96,830	50,977	732,856	748,165
Foreign government bonds								
United States	756,706	754,080	-	53,977	245,755	37,403	416,945	421,831
United Kingdom	39,519	39,910	-	-	-	-	39,910	-
Mexico	408,480	401,967	401,967	-	-	-	-	-
Other	351,215	382,067	10,680	1,772	24,189	401	345,025	55,648
Foreign private securities	2,426,290	2,568,894	653,210	586,202	814,180	357,337	157,965	809,162
US Agencies	7,277,546	7,269,239	-	-	-	-	7,269,239	100,630
Financial bills	28,739	28,511	-	24,873	3,638	-	-	-
Other	210,972	200,240	-	-	43,101	-	157,139	188,809
Unrestricted portfolio	50,126	48,082	-	-	46,618	-	1,464	12,560
Federal government bonds	50,126	48,082	-	-	46,618	-	1,464	12,560
Subject to Central Bank - Brazil	52,503	53,515	-	-	-	-	53,515	-
Federal government bonds	52,503	53,515	-	-	-	-	53,515	-
Subject to repurchase agreements	33,119,071	32,854,409	5	1,200,807	8,595,139	5,441,818	17,616,640	21,055,304
Federal government bonds	9,273,954	8,926,665	5	-	2,955,360	2,207,566	3,763,734	5,876,773
Foreign government bonds								
United States	5,884,470	5,859,109	-	447,447	655,241	648,273	4,108,148	3,795,158
United Kingdom	2,235,010	2,257,062	-	-	1,442,257	-	814,805	1,181,677
Germany	1,027,380	1,049,942	-	-	402,200	115,562	532,180	275,426
Other	1,723,810	1,750,739	-	309,077	285,789	380,489	775,384	218,324
US Agencies	6,658,931	6,644,552	-	151,699	1,250,758	1,141,367	4,100,728	8,078,497
Debentures / Eurobonds (i)	2,427,488	2,422,255	-	180,911	1,293,080	441,033	507,231	888,799
Foreign private securities	3,888,028	3,944,085	-	111,673	310,454	507,528	3,014,430	740,650
Subject to guarantees	2,839,670	2,832,468	466,621	303,196	490,893	681,088	890,670	2,235,070
Federal government bonds	2,016,097	2,008,825	-	-	437,067	681,088	890,670	2,148,776
Investment fund quotes								
Multimarket	373	373	373	-	-	-	-	-
Shares	466,248	466,248	466,248	-	-	-	-	86,294
Foreign government bonds								
United States	342,763	342,866	-	303,196	39,670	-	-	-
Other	14,189	14,156	-	-	14,156	-	-	-
Trading securities	62,835,210	62,218,099	7,792,262	4,654,948	13,306,758	8,206,011	28,258,120	36,048,056
Held-to-maturity securities	4,100,418	4,100,418	-	-	-	689,610	3,410,808	3,788,487
	66,935,628	66,318,517	7,792,262	4,654,948	13,306,758	8,895,621	31,668,928	39,836,543

(i) Substantially securities issued by Brazilian companies.

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b. Trading securities

	2012							2011
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	30,099,261	29,755,046	7,325,636	3,150,945	4,174,108	2,592,957	12,511,400	14,157,694
Federal government bonds	1,793,560	1,782,419	219,285	140,005	286,423	933,872	202,834	546,823
Brazilian foreign debt securities	20,911	20,724	-	8,125	3,074	-	9,525	-
Debentures/Eurobonds (i)	6,769,826	6,794,454	24,607	1,288,195	1,116,465	1,212,967	3,152,220	4,293,557
Bank certificates of deposit	117,895	117,895	-	64,330	53,565	-	-	-
Bank credit certificate	48,913	44,921	-	6,255	10,924	-	27,742	100,425
Investment fund quotes								
Shares	106,354	106,354	106,354	-	-	-	-	118,511
Multimarket	1,804,331	1,863,610	1,863,610	-	-	-	-	943,038
FIDC - Credit Rights	223,338	223,338	-	-	223,338	-	-	449,263
Real Estate	629,708	629,708	-	-	629,708	-	-	-
Equity Investment fund	622,918	622,918	-	-	622,918	-	-	838,674
Other	-	-	-	-	-	-	-	1,850
Shares	3,562,263	3,016,600	3,016,600	-	-	-	-	3,584,455
Promissory notes	2,003,746	2,003,745	1,028,475	975,270	-	-	-	956,853
Certificate of real estate receivables	896,031	883,452	848	1,941	96,830	50,977	732,856	748,165
Foreign government bonds								
United States	756,706	754,080	-	53,977	245,755	37,403	416,945	421,831
United Kingdom	39,519	39,910	-	-	-	-	39,910	-
Italy	408,480	401,967	401,967	-	-	-	-	-
Other	351,215	382,067	10,680	1,772	24,189	401	345,025	55,648
Foreign private securities	2,426,290	2,568,894	653,210	586,202	814,180	357,337	157,965	809,162
US Agencies	7,277,546	7,269,239	-	-	-	-	7,269,239	100,630
Financial bills	28,739	28,511	-	24,873	3,638	-	-	-
Other	210,972	200,240	-	-	43,101	-	157,139	188,809
Unrestricted portfolio	50,126	48,082	-	-	46,618	-	1,464	12,560
Federal government bonds	50,126	48,082	-	-	46,618	-	1,464	12,560
Subject to Central Bank - Brazil	52,503	53,515	-	-	-	-	53,515	-
Federal government bonds	52,503	53,515	-	-	-	-	53,515	-
Subject to repurchase agreements	30,851,064	30,586,402	5	1,200,807	8,595,139	5,441,818	15,348,633	21,055,304
Federal government bonds	7,005,947	6,658,658	5	-	2,955,360	2,207,566	1,495,727	5,876,773
Foreign government bonds								
United States	5,884,470	5,859,109	-	447,447	655,241	648,273	4,108,148	3,795,158
United Kingdom	2,235,010	2,257,062	-	-	1,442,257	-	814,805	1,181,677
Germany	1,027,380	1,049,942	-	-	402,200	115,562	532,180	275,426
Other	1,723,810	1,750,739	-	309,077	285,789	380,489	775,384	218,324
US Agencies	6,658,931	6,644,552	-	151,699	1,250,758	1,141,367	4,100,728	8,078,497
Debentures / Eurobonds (i)	2,427,488	2,422,255	-	180,911	1,293,080	441,033	507,231	888,799
Foreign private securities	3,888,028	3,944,085	-	111,673	310,454	507,528	3,014,430	740,650
Subject to guarantees	1,782,256	1,775,054	466,621	303,196	490,893	171,236	343,108	822,498
Federal government bonds	958,683	951,411	-	-	437,067	171,236	343,108	736,204
Investment fund quotes								
Multimarket	373	373	373	-	-	-	-	-
Shares	466,248	466,248	466,248	-	-	-	-	86,294
Foreign government bonds								
United States	342,763	342,866	-	303,196	39,670	-	-	-
Other	14,189	14,156	-	-	14,156	-	-	-

BANCO BTG PACTUAL S.A. and subsidiaries

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c. Held-to-maturity securities

	2012						2011
	Cost	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Cost
Own portfolio	774,997	-	-	-	179,758	595,239	2,375,915
Federal government bonds	774,997	-	-	-	179,758	595,239	2,375,915
Subject to re purchase	2,268,007	-	-	-	-	2,268,007	-
Federal government bonds	2,268,007	-	-	-	-	2,268,007	-
Subject to guarantees	1,057,414	-	-	-	509,852	547,562	1,412,572
Federal government bonds	1,057,414	-	-	-	509,852	547,562	1,412,572

If measured at fair value, held-to-maturity securities would be reported with a positive adjustment of R\$ 751,708 (2011 – R\$ 38,503).

The Bank has financial capacity for maintaining such assets to maturity.

d. Reclassification of securities

Management classifies securities according to its trading intention. No reclassifications or changes in intention were made by Management during the period.

9. Derivative financial instruments

The Bank actively engages in risk intermediation transactions involving derivative financial instruments, providing necessary hedging for its own needs and its clients aiming to reduce market, currency and interest rate risk exposures. Certain derivatives may be associated with operations involving securities or rights and obligations.

The risk underlying these operations is managed through strict control policies, the establishment of strategies, definitions of limits, among other monitoring techniques. The limits of risk exposure are determined by the Risk Committee and by type of instrument and counterparty concentration, among others.

Transactions conducted in Brazil are traded, registered or held in custody by BM&F BOVESPA and CETIP S.A. – OTC Clearing House; transactions conducted abroad are traded and registered with prime brokers. The Bank uses different financial instruments to achieve economical hedge such as options, forwards, futures and swaps with periodic adjustment. The use of these instruments is to hedge positions in the cash markets, aiming to improve the risk level in the portfolio, where the risk monitoring committees deemed necessary.

As at December 31, 2012 and 2011, the Bank does not have derivative financial instruments classified as hedge accounting.

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a. Recognized in memorandum and balance sheet accounts

The notional amounts of transactions with financial instruments are recorded in off balance accounts and the adjustment/premium in balance sheet accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, consider the provisions of BACEN Circular Letter 3389/08, which determines the exclusion of agreements in currency, gold and other assets linked to foreign exchange exposure, with term in the first business day following the date the exchange exposure is verified. The receivable leg and payable leg are presented separately for Swap, NDF and DF derivatives in the table below.

	2012				2011
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Futures market					
Long position	44,675,094	51,523,060	8,630,416	104,828,570	151,410,113
Currency	2,067,595	13,347	2,361,465	4,442,407	4,175,540
Interest rate	41,866,075	51,159,505	6,153,718	99,179,298	146,119,068
Commodities	272,868	190,802	2,396	466,066	262,961
Index	432,437	144,856	111,698	688,991	840,022
Equities	36,119	14,550	1,139	51,808	12,522
Short position	13,243,067	1,190,696	9,692,472	24,126,235	15,556,377
Currency	3,821,804	197,283	3,508,965	7,528,052	4,781,697
Interest rate	7,286,092	923,881	6,112,190	14,322,163	7,613,219
Commodities	538,557	4,306	-	542,863	246,924
Index	1,521,090	64,075	71,317	1,656,482	680,824
Equities	75,524	1,151	-	76,675	2,233,713
Swap					
Long position	81,447,265	29,571,224	8,460,307	119,478,796	43,380,473
Currency	2,108,230	292,853	1,211,234	3,612,317	1,580,973
Interest rate	77,160,969	28,538,751	6,273,743	111,973,463	33,077,864
Index	481,403	653,822	886,711	2,021,936	6,674,627
Equities	1,003,806	82,426	88,619	1,174,851	1,102,414
Commodities	75,342	-	-	75,342	18,817
Other	617,515	3,372	-	620,887	925,778
Short position	81,447,265	29,571,224	8,460,307	119,478,796	43,380,473
Currency	3,775,284	814,042	2,380,219	6,969,545	4,434,708
Interest rate	75,162,295	27,759,915	4,610,611	107,532,821	2,088,538
Index	1,206,662	868,433	1,368,033	3,443,128	35,221,673
Equities	486,712	95,463	4,087	586,262	181,420
Commodities	7,780	33,371	-	41,151	3,837
Other	808,532	-	97,357	905,889	1,450,297
Credit Derivatives					
Long position	40,870	-	1,105,748	1,146,618	1,305,128
Sovereign	40,870	-	524,554	565,424	1,185,894
Corporate	-	-	581,194	581,194	119,234
Short position	490,440	599,256	2,883,526	3,973,222	3,138,689
Sovereign	265,655	497,081	401,548	1,164,284	2,441,152
Corporate	224,785	102,175	2,481,978	2,808,938	697,537
Non-deliverable forward - NDF					
Long position	24,740,767	3,364,368	6,161,968	34,267,103	16,727,162
Currency	24,133,111	3,049,686	1,227,003	28,409,800	4,290,638
Commodities	326,017	103,257	2,245,192	2,674,466	-
Index	7,051	3,943	2,148,841	2,159,835	-
Interest rate	274,588	207,482	540,932	1,023,002	12,436,524

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	2012				2011
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Short position	24,740,766	3,364,368	6,161,969	34,267,103	16,727,162
Currency	24,016,133	2,514,226	999,799	27,530,158	15,639,514
Commodities	31,302	27,096	2,779,597	2,837,995	-
Index	240,862	60,561	1,944,526	2,245,949	1,601
Interest rate	452,469	762,485	438,047	1,653,001	797,836
Equities	-	-	-	-	227,455
Other	-	-	-	-	60,756
Deliverable forward - DF					
Long position	5,123,339	219,311	19,014	5,361,664	2,054,980
Currency	204,696	-	-	204,696	2,054,980
Commodities	4,918,643	219,311	19,014	5,156,968	-
Short position	5,123,340	219,311	19,013	5,361,664	2,054,980
Currency	5,123,340	219,311	19,013	5,361,664	2,054,980
Security forwards					
Long position	3,075,709	-	-	3,075,709	1,479,074
Interest rate	1,503,668	-	-	1,503,668	739,537
Equities	101,497	-	-	101,497	-
Government bonds	1,470,544	-	-	1,470,544	739,537
Short position	3,075,709	-	-	3,075,709	1,479,074
Interest rate	1,572,041	-	-	1,572,041	739,537
Government bonds	1,503,668	-	-	1,503,668	739,537
Options market					
Call option	24,594,498	3,046,010	95,282	27,735,790	39,988,360
Equities	2,199,762	187,238	74,720	2,461,720	4,268,996
Commodities	537,032	-	-	537,032	24,386
Index	10,253,577	2,363,415	-	12,616,992	946,381
Currency	412,321	156,084	-	568,405	19,349,960
Interest rate	11,189,806	339,273	20,562	11,549,641	15,396,308
Other	2,000	-	-	2,000	2,330
Put option	43,616,509	1,561,290	5,887,498	51,065,297	39,381,862
Equities	1,434,084	407,484	21,457	1,863,025	539,837
Commodities	82,966	-	-	82,966	66,361
Index	1,651,126	922,300	5,316,000	7,889,426	313,270
Currency	500,770	223,511	142,850	867,131	18,926,304
Interest rate	36,921,027	7,995	20,191	36,949,213	18,024,844
Other	3,026,536	-	387,000	3,413,536	1,511,245
Call option	32,182,342	3,166,641	229,837	35,578,820	42,873,761
Equities	1,337,696	178,941	28,190	1,544,827	302,027
Commodities	637,725	-	-	637,725	24,376
Index	16,207,153	1,661,864	57,327	17,926,344	6,187,006
Currency	513,639	323,705	142,850	980,194	25,561,644
Interest rate	13,486,129	1,002,131	1,470	14,489,730	10,798,707
Put option	42,818,985	1,280,690	5,503,856	49,603,531	29,114,425
Equities	950,940	56,780	8,905	1,016,625	233,026
Commodities	98,284	-	-	98,284	64,843
Index	10,601,378	319,553	5,337,667	16,258,598	969,037
Currency	283,400	234,623	155,951	673,974	19,523,114
Interest rate	30,884,983	669,734	1,333	31,556,050	8,324,405

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b. By cost and market value

	2012					2011
	Cost	Market	Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	21,979	21,980	18,627	1,912	1,441	22,517
Short position	37,353	37,354	30,084	4,100	3,170	15,900
Swaps						
Long position	337,365	479,957	160,989	108,038	210,930	267,019
Short position	398,323	584,632	256,702	50,097	277,833	466,791
Credit derivatives						
Long position	82,032	63,881	434	2,740	60,707	151,046
Short position	43,100	48,595	493	-	48,102	128,264
Non-deliverable forward - NDF						
Long position	805,377	815,616	79,187	117,631	618,798	266,937
Short position	637,391	641,503	88,670	42,939	509,894	74,379
Deliverable forward - DF						
Long position	2,872,949	2,880,141	2,757,581	103,546	19,014	491,985
Short position	2,890,757	2,890,434	2,766,635	103,208	20,591	491,120
Security forwards						
Long position	2,878,723	2,980,219	2,980,219	-	-	1,479,073
Short position	2,873,648	2,974,830	2,974,830	-	-	1,479,073
Options market						
Long position	350,209	642,376	411,806	183,036	47,534	378,783
Short position	422,509	886,334	643,203	194,866	48,265	298,262
	7,348,634	7,884,170	6,408,843	516,903	958,424	3,057,360
	7,303,081	8,063,682	6,760,617	395,210	907,855	2,953,789

c. Notional by counterparty

	2012					2011
	BM&FBovespa	Financial Institutions (*)	Companies	Individuals	Total	Total
Futures market						
Long position	99,006,168	5,822,402	-	-	104,828,570	151,410,113
Short position	15,493,774	8,632,461	-	-	24,126,235	15,556,377
Swap						
Long position	4,953,746	106,386,330	8,138,720	-	119,478,796	43,380,473
Short position	4,953,746	106,386,330	8,138,720	-	119,478,796	43,380,473
Credit derivatives						
Long position	-	1,146,618	-	-	1,146,618	1,305,128
Short position	-	3,973,222	-	-	3,973,222	3,138,689
Non-deliverable forward - NDF						
Long position	-	26,061,494	8,205,609	-	34,267,103	16,727,162
Short position	-	26,061,494	8,205,609	-	34,267,103	16,727,162
Deliverable forward - DF						
Long position	-	5,259,129	102,535	-	5,361,664	2,054,980
Short position	-	5,259,129	102,535	-	5,361,664	2,054,980
Security forwards						
Long position	101,497	2,974,212	-	-	3,075,709	1,479,074
Short position	101,497	2,974,212	-	-	3,075,709	1,479,074
Options market						
Long position	62,643,876	15,474,035	648,227	34,949	78,801,087	79,370,222
Short position	66,111,294	16,508,310	2,522,512	40,235	85,182,351	71,988,186
	166,705,287	163,124,220	17,095,091	34,949	346,959,547	295,727,152
	86,660,311	169,795,158	18,969,376	40,235	275,465,080	154,324,941

(*) Includes investments funds.

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d. Credit derivatives

	2012	2011
Credit swap		
Transferred risk		
Sovereign	565,424	1,185,894
Corporate	581,194	119,234
Risk received		
Sovereign	(1,164,284)	(2,441,152)
Corporate	(2,808,938)	(697,537)
	<u>(2,826,604)</u>	<u>(1,833,561)</u>

During the period, there were no credit events related to triggering facts provided for in agreements.

According to CMN Resolution 3490, the effect on the calculation of the Required Reference Shareholders' Equity (PRE) as at December 31, 2012 is R\$ 41,213 (2011 – R\$ 72,129).

e. Guarantee margins

Guarantee margins in transactions traded on BM&FBOVESPA with derivatives comprises federal government and sovereign bonds totaling R\$ 1,846,983 (2011 – R\$ 2,187,464) and shares in the amount of R\$ 465,756 (2011 – R\$ 86,294).

f. Fair value of financial instruments

The fair values of financial instruments are calculated as follows:

- Swaps: cash flows are discounted to present value based on yield curves reflecting the proper risk factors. These yield curves are mainly based on the prices traded on BM&F, Brazilian government bonds traded on the secondary or derivative market and securities traded abroad. These yield curves may be used to obtain the fair value of currency swaps, interest rate swaps and swaps based on other risk factors (commodities, stock market indexes, etc.).
- Futures and Forward: using stock exchange quotations or criteria identical to those described for swaps above.
- Options: the fair value of these instruments are calculated based on mathematical models (such as Black & Scholes) that use data containing implied volatility, interest rate yield curve and the fair value of the underlying asset. This data is obtained from different sources (normally prices from brokers and brokerage firms, Bloomberg and Reuters).
- Credit derivatives: the fair value of these instruments is calculated based on mathematical models largely adopted in the market that uses data relating to the issuer's credit spread and interest rate yield curve. This data is obtained from different sources (normally market prices, Bloomberg and Reuters).
- Securities and short selling: the fair value of government bonds are calculated based on prices disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA). The fair value of corporate bonds is calculated based on prices traded on the secondary market, prices of similar assets and market visibility of the Company's commercial departments. Shares are calculated based on the prices informed by BOVESPA. Fund quotas are valued based on quota prices disclosed by the custodian.

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- Financial assets at fair value through profit (loss): The Company estimates the fair values of the financial instruments by discounting cash flows to present value based on yield curves reflecting the proper risk factors.

10. Loans

Loans are classified in risk levels in accordance with the criteria established by CMN Resolution 2682/99. This classification takes into consideration, among others, a periodic analysis of the transaction, defaults, client history and guarantee, when applicable.

The allowance for loan losses is calculated based on classification of clients in the risk levels, as defined by said Resolution.

Loans and other operations with credit characteristics are as follows:

a. Loans

i. By type of credit

Type of credit	2012		2011	
	Balance	Allowance	Balance	Allowance
Loans	5,141,670	(135,702)	2,987,490	(77,428)
Financing	1,586,294	(41,338)	1,399,992	(4,873)
FINAME/BNDES	45,214	(3,641)	44,647	(47)
Securities financing	521,045	-	315,299	-
Total	7,294,223	(180,681)	4,747,428	(82,348)

ii. By risk level and maturity

Risk level	2012					2011		
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	-	1,107,057	254,323	995,381	2,356,761	-	2,448,139	-
A	-	674,927	424,556	1,314,949	2,414,432	(12,072)	1,494,473	(10,136)
B	1,140	480,128	238,030	1,201,991	1,921,289	(19,215)	536,161	(5,362)
C	8,485	119,702	34,359	91,622	254,168	(9,784)	56,095	(1,683)
D	-	50,379	46,077	75,086	171,542	(17,154)	138,256	(13,826)
	10,227	3,804	3,804	38,147	55,982	(16,795)	-	-
F	-	11,458	-	-	11,458	(5,729)	24,212	(12,106)
G	19,255	5,796	3,810	-	28,861	(20,203)	36,190	(25,333)
H	51,803	14,193	13,699	35	79,730	(79,729)	13,902	(13,902)
Total	90,910	2,467,444	1,018,658	3,717,211	7,294,223	(180,681)	4,747,428	(82,348)

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iii. By activity sector

Sector	2012	2011
Commerce	97,780	31,908
Industry	2,070,372	872,011
Services	3,992,435	3,174,487
Rural	463,259	313,494
Individuals	670,377	355,528
Total	7,294,223	4,747,428

b. Other receivables with loans characteristics and transferred loan

Exclusively comprised by securities and receivables, relating to credit rights acquisition transactions and transferred loan, as follows:

i. By risk level and maturity

Risk level	2012					2011		
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	-	82,587	300,709	202,979	586,275	-	635,547	-
A	-	314,634	-	200,781	515,415	(2,577)	-	-
B	-	111,488	158,196	52,227	321,911	(3,219)	26,061	(261)
C	-	-	-	-	-	-	175	(5)
D	9	466	4	-	479	(48)	-	-
F	196	-	-	-	196	(98)	-	-
Total	205	509,175	458,909	455,987	1,424,276	(5,942)	661,783	(266)
Securities and credits receivable					1,268,463	(5,163)	661,783	(266)
Transferred Loans					155,813	(779)	-	-

ii. By activity sector

Sector	2012	2011
Commerce	187,881	-
Industry	77,770	42,641
Services	1,158,625	619,142
Total	1,424,276	661,783

c. Advances in foreign exchange contracts

i. By risk level and maturity

Risk level	2012					2011		
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	-	38,722	-	-	38,722	-	97,578	-
A	-	205,239	133,185	-	338,424	(1,692)	276,881	(1,384)
B	-	71,198	-	-	71,198	(712)	190,037	(1,900)
C	-	31,721	31,478	-	63,199	(2,427)	-	-
Total	-	346,880	164,663	-	511,543	(4,831)	564,496	(3,284)

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ii. By activity sector

Sector	2012	2011
Commerce	-	5,885
Industry	175,617	32,954
Services	335,926	525,657
Total	511,543	564,496

d. Credit concentration

	2012	%	2011	%
Largest debtors				
10 largest debtors	3,398,275	37%	2,541,989	43%
20 following largest debtors	2,599,354	28%	1,829,425	31%
50 following largest debtors	2,393,146	26%	1,187,123	20%
100 following largest debtors	800,248	9%	415,170	6%
200 following largest debtors	39,019	0%	-	0%
	9,230,042	100%	5,973,707	100%

e. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics in the periods were as follows:

	2012	2011
Opening balances	(85,898)	(81,580)
Reversal/(accrual) of allowance	(112,768)	(18,190)
Exchange rate variation	(1,213)	(417)
Credits written off as loss	8,425	14,289
Closing balances	(191,454)	(85,898)
Breakdown of closing balances		
Allowance for loan losses	(180,681)	(82,348)
Allowance for transferred loans	(779)	-
Allowance for other receivables	(5,163)	(266)
Allowance for advances on foreign exchange contracts	(4,831)	(3,284)
	(191,454)	(85,898)

Changes in the allowance for other receivables without loan characteristics in the periods were as follows:

	2012	2011
Opening balances	(659,581)	(30,253)
Reversal/(accrual) of allowance	(355,529)	(11,832)
Exchange rate variation	(2,112)	-
Closing balances (i)	(1,017,222)	(659,581)

(i) Included R \$ 53,103 relating to provision for stand-by letters and guarantees granted, which was recorded as a liability

Allowances for other receivables with loan characteristics refer to the acquisition of credit rights, as illustrated in item (b) of this note. Allowances for other receivables without loan characteristics (note 12(b)) basically refer to provision for stand-by letters and guarantees granted (note 25(b)).

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f. Renegotiation/recovery of credits written off as loss

In the year ended December 31, 2012, the Bank renegotiated credit loans in the amount of R\$ 108,890 (2011 - R\$ 88,718); and recovered amounts relating to credit written off in previous period in the amount of R\$ 1,740 (2011 - R\$ 19,566).

g. Transferred loan

In year ended December 31, 2012, the Bank transferred loans and retained substantially all the risks and benefits in the amount of R\$ 342,657 (2011 - R\$ 295,783). As of December 31, 2012, the total amount outstanding of these loans is R\$ 155,813 (2011 - zero).

11. Other receivables/obligations

a. Foreign Exchange portfolio

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Unsettled Exchange purchased/sold	964,100	1,130,928	753,727	101,311
Rights on foreign exchange sales	1,151,522	-	101,485	-
(-) Advances on foreign Exchange contracts (Note 10 (c))	14,336	(497,207)	19,037	(545,459)
(-) Advances on foreign currency received	(3,120)	-	(94,335)	-
(-) Advances in local currency received	(228)	-	(3,739)	-
Liability for foreign exchange purchase	-	954,658	-	668,529
	<u>2,126,610</u>	<u>1,588,379</u>	<u>776,175</u>	<u>224,381</u>
Current	2,126,610	1,588,379	145,565	224,381
Long-term	-	-	630,610	-

Guarantees for foreign exchange transactions carried out through BM&FBOVESPA S.A. - Securities, Commodities and Futures Exchange (BM&FBOVESPA), are represented by federal government bonds in the amount of R\$ 519,729 (2011 - R\$ 18,422).

b. Securities trading and brokerage

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	304,421	60,681	30,809	99,295
Debtors/creditors - pending settlement account	3,575,231	6,418,284	4,372,440	3,727,062
Creditors for gold loans	-	201,734	-	-
Creditors for stock loans	-	1,423,925	-	1,613,269
Securities trading and brokerage	6,089	6,470,975	513	2,490,408
	<u>3,885,741</u>	<u>14,575,599</u>	<u>4,403,762</u>	<u>7,930,034</u>
Current	3,885,607	14,572,799	4,402,981	7,921,906
Long-term	134	2,800	781	8,128

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The item "Debtors/creditors – pending settlement account" is basically represented by amounts pending settlement, relating to transactions involving the purchase and sale of securities and financial asset agreements at BM&FBOVESPA, and abroad through prime brokers, on the Bank's behalf or on behalf of third parties.

The item "Securities trading and brokerage" basically represents, in assets, swap intermediation transactions, and in liabilities, it refers basically to the sale of shares to be settled.

12. Other receivables

a. Income receivable

	2012	2011
Dividends and bonus	16,834	12,083
Receivables from services rendered	353,141	208,608
Management and performance fees for investment funds and portfolio	559,476	145,974
Distribution fees	14,732	12,753
Commissions on guarantees	8,233	2,450
Other	225	9,614
	<u>952,641</u>	<u>391,482</u>
Current	952,641	356,677
Long-term	-	34,805

b. Sundry

	2012	2011
Deferred tax assets (Note 18)	1,483,961	1,318,256
Judicial deposits	654,997	530,668
Taxes to offset	260,914	220,499
Tax incentive options	1,317	1,317
Securities and credits receivable		
With loan characteristics (Note 10(b))	1,268,463	661,783
Without loan characteristics (i)	2,537,090	3,090,260
Sundry - Brazil	931,918	1,312,799
Other	186,947	1,624
	<u>7,325,607</u>	<u>7,137,206</u>
Current	5,377,431	5,240,085
Long-term	1,948,176	1,897,121

(i) Refer to the acquisition of payroll loan and vehicle financing portfolios through credit rights investment funds (FIDC), which were recognized in this item, taking into consideration that: (a) the acquisition of the portfolio did not consider the individual granting criteria of each agreement, and (b) Portfolio management is performed on a consolidated basis.

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13. Investments in associates and jointly-controlled entities

	Associates and jointly-controlled entities					
	Shareholders Equity		Net Income		Interest	
	2012	2011	2012	2011	2012	2011
In Brazil						
Banco Panamericano S.A.	2,489,312	1,398,350	(495,961)	11,181	34.06%	37.64%
Warehouse 1 Empreendimentos Imobs S.A.	70,307	40,089	28,986	(3,237)	35.00%	35.00%
Max Casa XIX Empreendimentos Imobs S.A.	17,615	14,358	3,258	(2,179)	50.00%	50.00%
ACS Omicron Empreendimentos Imobs S.A.	20,034	18,414	1,620	3,898	44.74%	44.74%
BR Properties S.A. (i) (iii)	7,943,692	-	1,227,428	-	25.03%	0.00%
Vivere Soluções e Serviços S.A. (iv)	12,799	29,997	(169)	5,070	30.00%	0.00%
One Properties S.A. (i)	-	658,287	-	(200,444)	0.00%	49.99%
In Brazil						
Banco Panamericano S.A.	461,953	546,281	-	(160,373)	847,861	(27,236)
Goodwill - Banco Panamericano. (iii)	(39,024)	-	-	3,711	(35,313)	-
Warehouse 1 Empreendimentos Imobs S.A.	14,031	-	(10,500)	21,076	24,607	(1,133)
Ágio - Warehouse 1 Empreendimentos Imobs S.A.	14,136	-	-	(14,136)	-	-
Max Casa XIX Empreendimentos Imobs S.A.	7,179	-	-	1,629	8,808	(1,572)
ACS Omicron Empreendimentos Imobs S.A.	8,239	-	-	725	8,964	2,327
Goodwill - ACS Omicron Empreendimentos Imobs S.A.	6	-	-	(6)	-	-
BR Properties S.A. (i) (ii)	-	(240,007)	(16,936)	382,679	1,576,467	-
One Properties S.A. (i)	329,078	-	-	15,429	-	22,583
Goodwill - One Properties S.A.	320,966	-	-	-	-	-
Vivere Soluções e Serviços S.A. (iv)	8,738	-	-	(4,948)	3,790	1,500
	1,125,292	306,274	(27,436)	245,786	2,435,184	(3,531)

Changes in Investments

	2011	Aquisition / Increase/ (Sales)	Dividends paid	Equity in earnings of subsidiaries	Incorporation of investment	2012	Equity in earnings of associates from 1/01 to 12/31/2011
Banco Panamericano S.A.	461,953	546,281	-	(160,373)	-	847,861	(27,236)
Goodwill - Banco Panamericano. (iii)	(39,024)	-	-	3,711	-	(35,313)	-
Warehouse 1 Empreendimentos Imobs S.A.	14,031	-	(10,500)	21,076	-	24,607	(1,133)
Ágio - Warehouse 1 Empreendimentos Imobs S.A.	14,136	-	-	(14,136)	-	-	-
Max Casa XIX Empreendimentos Imobs S.A.	7,179	-	-	1,629	-	8,808	(1,572)
ACS Omicron Empreendimentos Imobs S.A.	8,239	-	-	725	-	8,964	2,327
Goodwill - ACS Omicron Empreendimentos Imobs S.A.	6	-	-	(6)	-	-	-
BR Properties S.A. (i) (ii)	-	(240,007)	(16,936)	382,679	1,450,731	1,576,467	-
One Properties S.A. (i)	329,078	-	-	15,429	(344,507)	-	22,583
Goodwill - One Properties S.A.	320,966	-	-	-	(320,956)	-	-
Vivere Soluções e Serviços S.A. (iv)	8,738	-	-	(4,948)	-	3,790	1,500
	1,125,292	306,274	(27,436)	245,786	785,268	2,435,184	(3,531)

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- (i) See corporate restructuring described in Note 2;
- (ii) As described in Note 2, the investment in the consolidated subsidiary Saira and its corresponding goodwill totaling R\$ 1,436 million at December 31, 2011, were converted into equity investment in BR Properties. During the period, the Bank recognized equity earnings of R\$ 383 million net of allowance for non-permanent impairment totaling R\$ 402 million. The impairment was recorded based on Resolution No. 3566 of the Central Bank (CPC 01 - Reduction in Recoverable Value of Assets) recognized in income statement as equity in the earnings of associates, to reflect the probable realizable value of the shares of the affiliate;
- (iii) Realization of negative goodwill of R\$ 3,711 in the period, related to the dilution of interest on the investment in Banco Panamericano S.A..
- (iv) In 2012, BTG Pactual Vivere Participações S.A. were merged by Vivere Soluções e Serviços S.A.

a. Banco Panamericano S.A

On January 31, 2012 the Bank contributed capital increase to Panamericano S.A. in the amount of R\$ 495,477. This capital increase was made by conversion of advances for capital increase into capital stock, realized previously on December 11, 2011.

The subscription rights of non-controlling shareholder's was exercised on May 10, 2012 and the Bank additionally contributed with R\$ 50,804 that refers to the acquisition of preferred shares. After this event the Bank holds 34.06% of interest in Panamericano S.A.

14. Intangible assets

	Changes in Intangible assets				
	2011	Acquisitions (net)	Amortization expenses / derecognition	Exchange variation	Transfer (i)
Goodwill	173,570	1,022,426	(445,584)	-	-
Cost	173,570	1,022,426	(345,643)	-	-
Amortization	-	-	(99,941)	-	-
Other intangible assets	29,972	40,837	(30,429)	484	64,068
Cost	35,370	40,837	(22,095)	(573)	64,068
Amortization	(5,398)	-	(8,334)	1,057	-
	<u>203,542</u>	<u>1,063,263</u>	<u>(476,013)</u>	<u>484</u>	<u>64,068</u>
					<u>855,344</u>

(i) Refers to the transfer of "leasehold improvements – in progress" registered in property assets to "leasehold improvements" in the other intangible assets.

"Other intangible assets" refer basically software and leasehold improvements. The other intangible assets amortization periods are 5 years.

Amortization / derecognition of goodwill relate basically to: (i) R\$ 394,253 described in note 22 (ii) R\$ 51,331 relating to merge of investment.

The acquisitions of goodwill are disclosed in note 2.

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15. Fund raising and loans and onlending

a. Summary

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Deposits	14,624,007	7,660,175	5,209,187	606,154	1,146,098	2,393	14,211,060
Open market funding	52,650,667	50,502,596	1,938,506	61,606	-	147,959	39,060,989
Funds from securities issued and accepted	8,480,089	1,659,629	1,259,012	3,261,555	1,750,998	548,895	3,774,631
Loans and onlending	1,904,736	391,627	1,011,668	7,971	14,879	478,591	919,716
Subordinated debts	6,246,109	-	-	-	1,391,826	4,854,283	4,158,295
	<u>83,905,608</u>	<u>60,214,027</u>	<u>9,418,373</u>	<u>3,937,286</u>	<u>4,303,801</u>	<u>6,032,121</u>	<u>62,124,691</u>

b. Deposits

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	283,551	283,551	-	-	-	-	1,574,208
Interbank deposits	627,078	504,176	74,530	24,511	21,468	2,393	576,405
Time deposits	13,713,378	6,872,448	5,134,657	581,643	1,124,630	-	12,060,447
	<u>14,624,007</u>	<u>7,660,175</u>	<u>5,209,187</u>	<u>606,154</u>	<u>1,146,098</u>	<u>2,393</u>	<u>14,211,060</u>

c. Open market funding

Open market funding is underlined on the following securities:

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	<u>32,227,539</u>	<u>30,876,187</u>	<u>1,141,787</u>	<u>61,606</u>	<u>-</u>	<u>147,959</u>	<u>22,838,450</u>
Federal government bonds	9,195,438	9,047,479	-	-	-	147,959	5,885,970
Corporate securities	2,369,990	1,166,597	1,141,787	61,606	-	-	791,631
Securities issued abroad	9,557,551	9,557,551	-	-	-	-	16,160,849
Foreign government bonds	11,104,560	11,104,560	-	-	-	-	-
Third-party portfolio	<u>16,837,363</u>	<u>16,837,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,692,426</u>
Federal government bonds	15,723,705	15,723,705	-	-	-	-	11,572,280
Corporate bonds	31,984	31,984	-	-	-	-	3,017
Securities issued abroad	-	-	-	-	-	-	2,112,293
Foreign government bonds	1,081,674	1,081,674	-	-	-	-	4,836
Unrestricted portfolio	<u>3,585,765</u>	<u>2,789,046</u>	<u>796,719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,530,113</u>
Federal government bonds	3,218,478	2,421,759	796,719	-	-	-	2,239,367
Corporate bonds	367,287	367,287	-	-	-	-	290,746
Securities issued abroad	<u>52,650,667</u>	<u>50,502,596</u>	<u>1,938,506</u>	<u>61,606</u>	<u>-</u>	<u>147,959</u>	<u>39,060,989</u>

As at December 31, 2012 and 2011 the balances above are reported net of corresponding liabilities in the amount of R\$ 9,201,258 and R\$ 6,681,113, according note 4(f).

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d. Funds from securities issued and accepted

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	5,805,972	619,253	1,131,120	3,261,555	245,149	548,895	2,624,991
Financial bills	1,827,801	619,253	914,111	290,635	3,802	-	932,464
Mortgage bonds/letters of credit for agribusiness	3,978,171	-	217,009	2,970,920	241,347	548,895	1,692,527
Securities – abroad	2,674,117	1,040,376	127,892	-	1,505,849	-	1,149,640
Medium term notes	1,556,650	16,457	35,212	-	1,504,981	-	1,143,041
Credit linked notes	1,117,467	1,023,919	92,680	-	868	-	6,599
	<u>8,480,089</u>	<u>1,659,629</u>	<u>1,259,012</u>	<u>3,261,555</u>	<u>1,750,998</u>	<u>548,895</u>	<u>3,774,631</u>

Securities issued in Brazil are basically indexed to interbank deposit rates (CDI) between 35% e 109.25% or inflation indexes (IPCA e IGPM) plus 1.2% a 7.9%.

Securities abroad have rates between 0.9% per year to 19.3% per year.

e. Loans and onlending

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	1,394,768	391,353	1,003,415	-	-	-	875,094
Foreign currency	695,251	391,353	303,898	-	-	-	541,493
Loans abroad	699,517	-	699,517	-	-	-	333,601
Onlending in Brazil – official institution	509,968	274	8,253	7,971	14,879	478,591	44,622
BNDES	509,968	274	8,253	7,971	14,879	478,591	44,622
	<u>1,904,736</u>	<u>391,627</u>	<u>1,011,668</u>	<u>7,971</u>	<u>14,879</u>	<u>478,591</u>	<u>919,716</u>

Borrowing and transfers have rates between 0.9% per year to 8.58% per year.

f. Subordinated debt

As at December 31, 2012, the outstanding balance of this item was R\$ 6,246,109 (2011 – R\$ 4,158,295), as represented by (i) financial bills issued on April 15, 2011, totaling R\$ 4.652.973, with repayment every six months and maturity beginning October 2016 and ending April 15, 2021, indexed to fixed rates plus inflation; and (ii) subordinated notes issued on September 25th, 2012 in the amount of R\$ 1,593,136 (2011 – zero) and due September 2022, which bear interest at 5.75% per year.

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16. Other obligations

a. Social and statutory

	2012	2011
Dividends and profit sharing payable	382,340	176
Employees' profit sharing	186,514	449,842
Other benefits	626,746	103,188
	<u>1,195,600</u>	<u>553,206</u>
Current	1,118,925	552,761
Long term	76,675	445

b. Tax and social security

	2012	2011
Tax and contributions to be collected	151,079	116,081
Tax and contribution payable	610,777	83,718
Deferred social contribution and income tax	65,330	48,720
Suspended-payment taxes and others tax liabilities (Note 17 (c))	644,702	511,421
	<u>1,471,888</u>	<u>759,940</u>
Current	818,519	238,783
Long term	653,369	521,157

c. Sundry

	2012	2011
Payable for acquisition of assets and rights (i)	574,451	569,694
Accounts payable - personnel	200,737	84,697
Accounts payable - suppliers	125,753	46,669
Accounts payable - other	287,802	70,005
Provision for contingent liabilities (Note 17(c))	29,123	27,719
Other creditors - Brazil	639,232	23,563
Other creditors - abroad	65,312	56,180
Obligations related to transferred loans	120,442	-
Consolidated funds - Non-controlling interest	165,792	-
Other	310	1,186
	<u>2,208,954</u>	<u>879,713</u>
Current	1,336,557	279,206
Long term	872,397	600,507

(i) Refers to amounts payable for the acquisition of investments (substantially Panamericano and COOMEX)

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17. Contingent assets and liabilities and legal obligations

The Bank's and its subsidiaries' Management evaluate existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings, whenever necessary. Managements judgment is based on the opinion of its internal and external legal counsel regarding the expected outcome for each proceeding.

a. Contingent assets

As at December 31, 2012 and 2011, the Bank did not record contingent assets.

b. Contingent liabilities classified as probable losses and legal obligations

i. Labor provisions

Comprise lawsuits filed by former employees, mostly claiming overtime and salary parity. The contingencies are accrued based on an analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

ii. Civil provisions

For civil lawsuits with chances of unfavorable outcome (pain and suffering and pecuniary injury, among others), contingency amounts are accrued based on estimate of probable losses based on the opinion of internal and external legal counsel.

iii. Tax and social security provisions

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and municipal taxes, regarding legal obligations and contingent liabilities. The provisions are recognized based on the opinion of internal and external legal counsel and the court level to which each proceeding was submitted.

c. Breakdown and changes in provisions in the period

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being a party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, Management considers that the provisions recognized for such proceedings at December 31, 2012 are appropriate to cover probable losses arising therefrom.

The provisions recognized and their changes in the period are as follows:

	2012				2011
	Tax	Civil	Labor	Total	Total
Balance at the beginning of the period	511,421	20,653	7,066	539,140	446,014
Recognition	133,478	2,404	6,480	142,362	105,541
Write-off	(197)	(3,918)	(3,562)	(7,677)	(12,415)
Balance at the end of the period	644,702	19,139	9,984	673,825	539,140
Suspended-payment taxes and other taxes contingencies				644,702	511,421
Provision for contingent liabilities				29,123	27,719

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The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities (Note 16(b))

The Bank's and its subsidiaries have been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a possible loss by the internal counsel are fully recorded in provision. The main legal disputes are the following:

COFINS ("Social security financing tax") - Challenge of the legal grounds for the levy of COFINS under rules established by Law 9718/98.

PIS ("Social integration program tax") - Challenge of the levy of PIS established by Constitutional Amendments 10 of 1996 and 17 of 1997.

CSL ("Social contribution tax") - Challenge of CSL payment required from financial institutions in the period from 1996 to 1998 at rates higher than those applied to legal entities in general, opposing the constitutional principle of equality.

As at December 31, 2012, Banco BTG Pactual and its subsidiaries were parties to tax lawsuits with a possible outcome, which were not recorded in provision. The description of the main lawsuits is as follows:

- Lawsuits relating to the payment of profit sharing, challenging the payment of social security contribution on the amounts and non-deductibility of income tax and social contribution tax base. The amount claimed is R\$ 872.9 million. These lawsuits have guarantee of indemnity clause as it refers to the period before the acquisition of the Bank by the current controllers.
- Administrative proceedings challenging the tax assessment by the São Paulo Local Government, charging ISS on services provided in Rio de Janeiro, as the tax authority from the city of São Paulo understands that such services were effectively rendered in São Paulo. The amount claimed is R\$ 91.9 million.
- Lawsuits relating to the demutualization and IPO of Bovespa and BM&F, challenging the taxation of PIS, Cofins, income tax and social contribution on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R\$ 87.5 million.
- In October 2012, we received a tax assessment totaling R\$1,970 million alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by us was inappropriate. Such goodwill was originated in connection with the acquisition of us by UBS in 2006. The amortization of such goodwill occurred from February 2007 to January 2012, although the tax assessment solely relates to the IRPJ and CSLL tax returns for the calendar years 2007, 2008 and 2009. We have filed an appeal of this tax assessment. Based on our analysis of applicable case law, including in recent similar cases, we believe that the tax assessment is without merit and that we will ultimately prevail in its appeal. As a result, we do not expect to incur any losses (other than the costs of the appeal) in connection with this matter, and have not established (and do not expect to establish) any related reserves on our financial statements. In addition to our assessment as to the validity of this tax assessment, in the event that we incur losses in connection with this matter, we believe we are entitled to be indemnified by third parties for such losses. Accordingly, we do not expect to incur any material losses in connection with this matter.

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ii. Provision for other contingent liabilities (Note 16(c))

As at December 31, 2012 and 2011, BTG Pactual Group was parties to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provision. In addition, there is a challenge of Central Bank of Brazil and day-trade derivatives transactions, from 2002 to 2004 that potentially favored foreign investor over the bank. The value concerning the results of operations on claimed is US\$ 189 million.

18. Income tax and social contribution

The reconciliation of income tax and social contribution expenses with the figure obtained by applying the tax rate on income before these taxes is as follows:

	2012	2011
Income tax and social contribution		
Tax base	2,369,831	963,881
Income before taxes and profit sharing	3,748,038	1,684,110
Statutory profit sharing	(938,207)	(401,229)
Interest on equity	(440,000)	(319,000)
Total charge of income tax and social contribution at the current rates	(947,932)	(385,552)
Permanent (additions) / deductions in taxation calculation	(24,589)	73,399
Equity in the earnings of subsidiaries and associated and jointly controlled companies in Brazil	98,314	(1,412)
Income/(loss) of foreign exchange on foreign investments	35,768	58,904
Foreign earnings	(83,197)	-
Dividends	25,237	15,360
Other Permanent (additions) / deductions	(100,711)	547
Temporary (additions) / deductions on the taxation calculation	(124,384)	248,873
Reversal of provision for goodwill on the acquisition of investments	119,633	373,400
Marked-to-market evaluation of securities and derivatives	(163,966)	10,630
Allowance for loan losses	(69,647)	(8,353)
Tax contingencies and provision for suspended-payment taxes	(41,365)	(24,574)
Offset of tax losses carry forward - Abroad	88,504	(81,352)
Other provisions	(57,543)	(20,878)
Offset of tax losses carry forward - Brazil	203,742	(107,986)
Tax and social contribution expense	(893,163)	(171,266)
Temporary differences		
Recognition / (reversal) of the period	175,655	(300,343)
Recognition / (reversal) on goodwill	84,247	481,369
Recognition / (reversal) of tax losses carry forward	(292,246)	189,339
Recognition of loss on investment abroad	198,049	-
Expenses) / revenues from deferred taxes	165,705	370,365
Total revenues / (expenses)	(727,458)	199,099

Income tax and social contributions are calculated and recorded in accordance with the criteria established by BACEN Circular Letter 3059/02, taking into account the period of realization.

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Changes in deferred tax assets presented in "Other credits – Sundry" (Note 12(b)), are as follows:

Income tax and social contribution	2011	Recognition	Realization	2012
Tax loss carryforwards	351,772	10,393	(302,639)	59,526
Allowance for loan losses	76,033	104,358	(34,711)	145,680
Marked-to-market evaluation of securities and derivatives	3,576	938,452	(774,486)	167,542
Goodwill on the acquisition of investment	620,412	84,247	(154,108)	550,551
Tax contingencies and provision for suspended-payment taxes	129,049	41,365	-	170,414
Tax loss on investment abroad	-	198,049	-	198,049
Other temporary differences	137,414	144,745	(89,960)	192,199
	<u>1,318,256</u>	<u>1,521,609</u>	<u>(1,355,904)</u>	<u>1,483,961</u>
Income tax and social contribution	2010	Recognition (i)	Realization	2011
Tax loss carryforwards	166,030	189,564	(3,822)	351,772
Allowance for loan losses	67,680	73,788	(65,435)	76,033
Marked-to-market evaluation of securities and derivatives	14,202	442,896	(453,522)	3,576
Goodwill on the acquisition of investment	457,631	536,182	(373,401)	620,412
Tax contingencies and provision for suspended-payment taxes	104,474	24,575	-	129,049
Other temporary differences	62,235	78,568	(3,389)	137,414
	<u>872,252</u>	<u>1,345,573</u>	<u>(899,569)</u>	<u>1,318,256</u>

(i) In september, 2011, the wholly owned subsidiary, BTG Pactual Empresa Operadora do Mercado Energético Ltda.(Coomex) conducted a reverse merger transaction from its parent BTG Pactual Agente Comercializador de Energia Ltda. As a result, the Bank registered a tax benefit in the amount of R\$ 54,813.

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

Description	Tax credits on temporary differences	Tax loss carry forwards	Total
2013	524,644	188,613	713,257
2014	211,271	68,962	280,233
2015	199,069	-	199,069
2016	193,838	-	193,838
2017 onwards	97,564	-	97,564
Total	<u>1,226,386</u>	<u>257,575</u>	<u>1,483,961</u>
Present value	<u>1,087,429</u>	<u>173,206</u>	<u>1,260,635</u>

Deferred income tax and social contribution liabilities amounts to R\$ 65,330 (2011 - R\$ 48,720) and corresponds basically to unrealized market-to-market valuation on securities (note 16(b)).

19. Shareholders equity

a. Capital

As at December 31, 2012, fully subscribed and paid in capital consists of 2,714,902,212 shares (2011 – 2,400,000,000), of which 1,390,671,404 common shares (December 31, 2011 – 1,200,160,000), 508,380,404 class A preferred shares

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

Years ended December 31

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(December 31, 2011 – 298,445,596) and 815,850,404 class B preferred shares (December 31, 2011 – 901,394,404), all no-par, registered shares.

In the special shareholders meeting held on December 31, 2011 approved the capital increase of R\$ 271,150 without issuing shares. This decision was approved by BACEN on April 16, 2012.

In the special shareholders meeting held on April 02, 2012 the capital increase was approved without an issuance of shares in the total amount of R\$ 650,000 through the incorporation of the statutory reserve. In the board of directors meeting held on April 24, 2012 was approved (i) the capital increase of R\$ 2,070,000 was approved through the issuance of 82,800,000 common shares and 165,600,000 preferred shares class A and (ii) conversion of 85,544,000 Class B preferred shares into common shares. These decisions were approved by the central bank on June 29, 2012.

In the meeting of the Board of Directors held on November 13, 2012 approved the capital increase of R\$ 391,875, through the issuance of 19,865,336 common shares and 39,730,672 preferred class A shares. This decision was approved by the Brazilian Central Bank on December 17, 2012.

In the meeting of the Board of Directors held on December 20, 2012, approved a capital increase of R\$ 52,488, through the issuance of 2,302,068 common shares and 4,604,136 preferred shares class A. This decision is currently pending approval by the Central Bank.

The common shares have right to one vote each in the deliberations of the General Assembly and participate on equal terms with the Class A Preferred Shares and Class B preferred shares in the distribution of profits.

Preferred shares Class A and B have no right to vote and have priority in capital reimbursement, without premium, and participate on equal terms with the common shares in the profits distribution.

The Class A Preferred Shares shall have the right to be included in acquisition public offer due to transfer of control of the Bank, provided their holders to receive a minimum amount per share equal to 80% (eighty percent) of the amount paid by common share of the control block.

The Class B preferred shares are convertible into common shares, upon request by writing to the holder or the Bank without deliberation and board or shareholders meeting, provided that (i) such conversion occurs at the time of issuance of new shares by the Bank whether or not within the limit of authorized capital (unless the shareholder converting the shares is BTG Pactual SA Holding) (ii) upon conversion, BTG Pactual SA Holding (or its successor in any capacity, including by virtue of merger, division or other reorganization) continues to hold directly or indirectly, more than 50% of common shares issued by the Bank and (iii) conversion is in accordance with the Bank's shareholders' agreement. Class B preferred shares can be convertible into Class A preferred shares at the request of its holder, and provided that (i) the Bank is a public company with shares listed on stock exchanges and (ii) conversion is in accordance with the company's shareholders' agreement.

b. Legal reserve

This reserve is established at the rate of 5% of net income for the exercise, before any other allocation, limited to 20% of the capital.

c. Statutory reserve

BANCO BTG PACTUAL S.A. and subsidiaries

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In outstanding with the bylaws, the purpose of this reserve is to maintain working capital and is limited to the balance of the capital.

d. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

e. Profit distribution

The shareholders are entitled to minimum dividends of 1% on net income in accordance with Article 202 of Law 6404/76.

On June 30, 2012 the Bank provisioned R\$ 181,610, relating to dividends and R\$ 220,000, related to interest on capital, which generated R\$ 88,000 of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on August 8, 2012 and paid on August 22, 2012.

On December 31, 2012 the Bank provisioned R\$ 220,000, related to interest on capital, which generated R\$ 88,000 of tax benefit and R\$ 192,285, relating to dividends. These amounts were approved in the Special Shareholders' Meeting held on December 19, 2012 and February 19, 2013, respectively.

f. Reconciliation of net income (loss) and shareholders equity

	Shareholders' equity		Net income	
	2012	2011	2012	2011
Banco BTG Pactual S.A.	10,068,496	6,343,965	2,024,063	1,481,222
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of Banco Panamericano S.A. (*)	32,971	(4,202)	37,174	(4,202)
Banco BTG Pactual S.A. Consolidated	10,101,467	6,339,762	2,061,237	1,477,020

(*) The consolidated information reported by Banco Panamericano S.A. includes its direct and indirect subsidiaries and special purpose entities, represented by credit rights investment funds (FIDCs). During consolidation of FIDCs, unrealized profit from transferred loan transactions from Panamericano to FIDCs are eliminated, thus resulting in a difference between individual and consolidated shareholders' equity. This difference is reflected in the individual and consolidated shareholders' equity of Banco BTG Pactual S.A. due to the recognition of the investment in Panamericano through the equity method of accounting.

20. Income from services rendered

	2012	2011
Management and performance fee from investment funds and portfolios	1,329,355	511,447
Brokerage	167,980	107,660
Technical services	485,523	343,462
Commission on the placement of securities	98,582	72,378
Guarantees	116,158	46,068
Other services	21,551	26,553
	2,219,149	1,107,568

BANCO BTG PACTUAL S.A. and subsidiaries

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21. Other operating income

	2012	2011
Recovery of charges and expenses	3,739	5,695
Reversal of provision – employees' profit sharing	9,376	20,650
Reversal of allowances - other	10,592	604
Indemnities	6,242	-
Reversal of provision - contingencies	6,896	15,272
Adjustment to inflation of court deposits	52,047	70,675
Exchange gains	9,642	25,129
Other operating income	10,489	20,075
	<u>109,023</u>	<u>158,100</u>

22. Other operating expenses

	2012	2011
Other operating provisions expenses (reversals)	10,680	1,350
Expenses with taxes adjusted for inflation	1,351	4,407
Exchange rate variation	13,799	-
Reimbursement of clients	1,063	-
Repayment of financial operating costs	14,830	8,131
Adjustment of amounts payable for acquisition of investments(i)	54,121	33,418
Goodwill amortization (ii)	394,253	31,808
Other	61,988	7,459
	<u>552,085</u>	<u>86,573</u>

(i) Refers to update of amount payable for the acquisition of investments (basically Panamericano and Coomex).

(ii) On year ended on December 31, 2012 goodwill was fully amortized based on (a) realization of goodwill of COOMEX based on its useful economic life (R\$ 69,509); (b) impairment on other goodwill and amortization(R\$ 76,958 – see Note 13) and (c) profitability and recognition of deferred income tax asset due to corporate restructure of BFRE (R\$ 247,786).

23. Other administrative expenses

	2012	2011
Outsourced services and consulting	339,769	120,830
Telecommunications and data proc	114,342	87,045
Leases and condominiums	60,756	23,336
Travel and Lodging	48,004	28,809
Expenses of the financial system	39,603	38,392
Advertising and Public Relations	30,466	13,516
Depreciation and amortization	26,272	18,690
Other	18,708	24,844
	<u>677,920</u>	<u>355,462</u>

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

Years ended December 31

(In thousands of reais)

24. Related parties

Institutions comprising the BTG Pactual Group invest their cash and cash equivalents mainly in funding products offered by the Bank. Related-party balances, carried at arm's length, are reflected in the following accounts:

	Relationship	Maturity	Assets/Liabilities		Revenues/Expenses	
			2012	2011	2012	2011
Assets						
Short-term interbank investments						
Interbank investments deposits						
- Banco Panamericano S.A.	Jointly controll	1/28/2013	1,203,256	500,504	25,184	2,128
Derivative financial instruments						
- BTG Investments LP (i)	Related	-	-	81,334	-	76,608
Income receivables						
- BTG Pactual Absolute Master Fund (i)	Related	No maturity	37,363	-	217,837	23,898
Sundry						
- BTG Alpha Investment LLC (ii)	Related	No maturity	54,385	-	-	-
- Max Casa XIX Empreendimentos Imobiliários S.A.	Related	No maturity	5,453	4,936	-	-
- ACS Omicron Empreendimentos imobiliários S.A.	Related	No maturity	1,187	12	-	-
- Warehouse 1 Empreendimentos imobiliários S.A.	Related	No maturity	432	432	-	-
Liabilities						
Deposits						
Demand deposits						
- BTG Pactual Mining S.A. (i)	Related	No maturity	(100)	-	-	-
- BTG Pactual Reinsurance Holdings LP (i)	Related	No maturity	(961)	(939)	-	-
- Partners	Key person	No maturity	-	(449)	-	-
Time deposits						
- BTG Holding S.A.	Parent	11/14/2013	(24,240)	-	-	-
- BTG Pactual Europe LLP (i) (iii)	Related	No maturity	(74,835)	-	-	-
- BTG Pactual Proprietary Feeder (1) Limited (i) (iii)	Related	No maturity	(2,768)	(249)	-	-
- BTG Investments LP (i) (iii)	Related	No maturity	(10,869)	(2,120)	-	-
- BTG MB Investments LP (ii) (iii)	Related	No maturity	(2,130)	(9,425)	-	-
- BTG Pactual Absolute Master Fund (i)	Related	No maturity	(2,821)	-	-	-
- BTG Equity Investments LLC (i)	Related	No maturity	(6,615)	(194)	-	-
- BTG Alpha Investments LLC (ii)	Related	No maturity	(1,499)	(1,029)	-	-
- BTG Pactual Beta Participações S.A. (ii)	Related	12/23/2013	(1,979)	(1,459)	-	(168)
- BTG Pactual Pharma Participações S.A. (ii)	Related	11/22/2013	(388)	(1,702)	-	(272)
Open market funding						
Own portfolio						
- Banco Panamericano S.A.	Jointly controll	-	-	(629,374)	-	(29,656)
Third-party portfolio						
- Banco Panamericano S.A.	Jointly controll	1/2/2013	(6,002)	(9,999)	-	-
Funds from securities issued and accepted						
Real Estate Bills						
- Partners	Key person	4/5/2013	(30,711)	-	-	-
Derivative financial instruments						
- Leblon Investment Fund Ltd.	Related	4/1/2013	(22,325)	-	-	-
- Banco Panamericano S.A.	Jointly controll	4/22/2020	(101,783)	-	-	-
Other obligations						
Securities trading and brokerage						
- BTG Investments LP (i)	Related	-	(19,219)	(69,420)	-	-

(i) Subsidiaries of BTG Pactual Participations Ltd.

(ii) Controlled by BTG MB Investments.

(iii) Classified as Demand deposits until December 31, 2011.

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
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As of December 31, 2012m the bank holds trading securities, issued by third parties, which are backed by guarantees issued by BTG Investments LP in the approximately amount of R\$ 500 million.

Total compensation paid to key management personnel totaling this period R\$ 86,854 (2011 – R\$ 2,961) which is considered short term benefit.

25. Other information

a. Cash and cash equivalents

	2012	2011
Balances at beginning of year		
Cash and cash equivalents	517,305	1,522,813
Open market investments	11,424,916	16,622,980
Interbank deposits	545,196	4,103
	<u>12,487,417</u>	<u>18,149,896</u>
Balances at end of year		
Cash and cash equivalents	552,168	517,305
Open market investments	15,179,462	11,424,916
Interbank deposits	1,714,131	545,196
	<u>17,445,761</u>	<u>12,487,417</u>

b. Commitments and responsibilities

The Bank's and its subsidiaries' main commitments and responsibilities are as follows:

	2012	2011
Co-obligation and risks for guarantees granted	7,422,378	5,278,935
Responsibility for the management of futures and investment portfolio (i)	167,250,732	34,477,778
Securities under custody	291,395,585	142,531,821
Securities trading and brokerage	2,255,008,913	857,584,457
Loans contract to release	2,681,347	-

(i) Recognized by the sum of the equity values of funds and investment portfolios

The item "Co-obligations and risks for guarantees granted" mainly comprises guarantees granted or assets allocated to exchange trading securities.

The item "Securities under custody" reflects third-party public and private security positions under custody with SELIC, CETIP S.A. and BM&FBovespa S.A.

The item "Securities trading and brokerage" represents amounts from derivatives purchase and sale agreements related to third-party transactions.

The item "Loans contracted to release" register amounts related to loans contracted with clients to release.

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
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26. Subsequent events

On January 22, 2013, the Brazilian Central Bank approved the capital increase deliberated on the Board of Directors held on December 20, described on Note 19 (a).

On January 30, 2013, the Bank signed definitive agreements related to its acquisition of certain credits and rights held by Fundo Garantidor de Créditos - FGC ("FGC") against Banco Bamerindus do Brasil S/A, in Extrajudicial Liquidation (the "Institution"), and other companies in the Institution's economic group ("Transaction") In connection with the Transaction, BTG Pactual will pay approximately R\$418 million to the FGC in five installments, the first of which will be paid at the closing of the Transaction and the other four on the first through fourth anniversary of the closing. The four installments will be adjusted. Consummation of the Transaction is subject the termination of the process complete the extrajudicial liquidation of the Institution and its subsidiaries, and the settlement of certain of of their financial obligations, resulting in positive shareholders' equity. The Institution's assets do not include the Bamerindus brand.

This transaction will result in BTG Pactual acquiring (i) control of the Institution and its subsidiaries, (ii) an interest in the Institution greater than ninety-eight percent 98% of its total and voting capital, and (iii) the receivables and assets held by the Institution, which will be used in BTG Pactual credit operations context. The consummation of the Transaction is subject to certain conditions, including obtaining all required regulatory approvals.

On January 10, 2013 the Bank issued senior notes totaling US\$1,000,000 at a fixed coupon of 4% and maturing in January 2020. Interest on the Senior Notes will be due every six months, in January and July.

Consolidated financial statements

Banco BTG Pactual S.A.

December 31, 2011 and 2010
with independent auditors' report on financial statements

BANCO BTG PACTUAL S.A.

Consolidated financial statements

December 31, 2011 and 2010

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Independent auditors' report on financial statements

To the
Board of Directors and Shareholders
Banco BTG Pactual S.A.

We have audited the accompanying consolidated financial statements of Banco BTG Pactual S.A., which comprise the consolidated balance sheet as at December 31, 2011 and the related consolidated statements of income, changes in shareholders' equity and consolidated cash flows for the year then ended, and a summary of significant accounting practices and other notes to financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Bank's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco BTG Pactual S.A. as at December 31, 2011, the consolidated performance of its operations and its consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil.

Emphasis

As mentioned in Note 29 of its financial statements, as of December 31, 2011 the jointly controlled subsidiary Banco Panamericano S.A. regulatory operating limits are not in compliance with those required by the Central Bank of Brazil. During 2011, funds amounting to R\$ 1,300 million were contributed by the shareholders and a shareholder's deposit was also made in the amount of R\$ 620 million for asset recovery purposes. Additionally, in January 2012 a capital increase of up to R\$ 1,800 million was approved, of which R\$ 972 million were subscribed for and paid on January 31, 2012.

As of December 31, 2011, jointly controlled subsidiary Banco Panamericano S.A. has income and social contribution tax credits amounting to R\$ 2,575 million, recognized on the basis of financial projections and business plan reviewed and approved by its Board of Directors, which comprise a study of the current environment and future scenarios of assumptions used in these projections. The realization of these tax credits depends on delivery of these projections and business plan as approved by the management bodies of Banco Panamericano S.A.

As described in Note 2, Banco BTG Pactual S.A. has fully merged with the BTG Participações II S.A. Pursuant to rules established by the Central Bank of Brazil, we have examined the procedures adopted in the merger processes, which, in our opinion, are in accordance with regulating standards.

As described in Note 2, Banco BTG Pactual S.A. has fully merged with the Copacabana Prince Participações S.A. Pursuant to rules established by the Central Bank of Brazil, we have examined the procedures adopted in the merger processes, which, in our opinion, are in accordance with regulating standards.

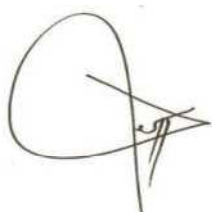
Other matters

We have also audited the statement of value added (SVA), for the year ended December 31, 2012, prepared under the responsibility of Bank's management, the presentation of which is required by Brazilian Corporate Law for publicly-held companies, and as supplementary information under the accounting practices applicable to institutions authorized to operate by the Central Bank of Brazil. This statement have been subject to the same audit procedures previously described, and based on our review nothing has come to our attention that causes us to believe that the statement of value added is not fairly presented, in all material respects, in relation to the overall financial statements.

We have formerly audited the consolidated financial statements for the years ended December 31, 2011 and 2010, on which we issued an unqualified opinion, dated February 29, 2012. As mentioned in note 3, due to changes in accounting policies regarding the classification of results from energy derivatives adopted by Bank's management subsequently to December 31, 2011, the consolidated financial statements, for the years ended December 31, 2011 and 2010, were subject to adjustments regarding the reclassification on the income statements of certain balances originally presented and, therefore are being presented as provided for by Brazilian Accounting Standards Board (CPC) CPC 23 – Accounting Practices, Changes in Accounting Estimates and Correction of Errors, approved by the Brazilian Securities and Exchange Commission (CVM) Rule 592/09. Consequently, our opinion considers those adjustments and replaces the opinion formerly issued.

Rio de Janeiro, January 8, 2013

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6 - F - RJ



Flávio Serpejante Peppe
Partner

A free translation from Portuguese into English of consolidated financial statements prepared in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil

BANCO BTG PACTUAL S.A.

Consolidated balance sheets December 31, 2011 and 2010 (in thousands of reais)

	NOTE	2011	2010
Assets			
Current assets		72,109,850	69,347,301
Cash and cash equivalents	6	517,305	1,522,813
Short-term interbank investments	7	19,568,249	25,209,316
Open market investments		18,624,436	25,122,576
Interbank deposits		943,813	86,740
Marketable securities and derivative financial instruments		38,630,309	35,955,633
Own portfolio	8	14,157,694	9,358,853
Subject to repurchase agreements	8	21,055,304	22,896,953
Subject to freely tradable repos	8	12,560	-
Derivative financial instruments	9	2,582,253	1,948,939
Subject to guarantees	8	822,498	1,750,888
Interbank transactions		874,879	99,740
Deposits with Central Bank of Brazil		874,053	99,709
Correspondents		826	31
Loans	10	2,972,442	2,233,931
Loans – private sector		3,014,674	2,261,385
Allowance for loan losses		(42,232)	(27,454)
Other receivables		9,521,541	4,283,345
Foreign exchange portfolio	11	145,565	1,216,971
Income receivable	12	356,677	223,625
Securities trading and brokerage	11	4,402,981	1,989,503
Sundry	12	5,240,085	854,095
Allowance for losses on other receivables	11	(623,767)	(849)
Other assets		25,125	42,523
Temporary investments		-	21,682
Other assets		18,591	18,541
Prepaid expenses		6,534	2,300
Long-term assets		8,496,825	3,166,469
Short-term interbank investments	7	14,787	-
Interbank deposits		14,787	-
Marketable securities and derivative financial instruments		4,263,594	106,167
Own portfolio	8	2,375,915	-
Derivative financial instruments	9	475,107	106,167
Subject to guarantees	8	1,412,572	-
Interbank transactions		1,853	34,406
Restricted credits – Financial System of Accreditation		1,853	34,406
Loans	10	1,692,638	1,467,743
Loans – private sector		1,732,754	1,520,957
Allowance for loan losses		(40,116)	(53,214)
Other receivables		2,523,953	1,558,153
Foreign exchange portfolio	11	630,610	56,036
Income receivable	12	34,805	-
Securities trading and brokerage	11	781	113
Sundry	12	1,897,121	1,532,320
Allowance for losses on other receivables	11	(39,364)	(30,316)
Permanent assets		1,405,334	393,131
Investments		1,131,018	4,929
Investments in associates and jointly controlled entities		1,125,292	-
Other investments		8,713	7,916
Allowance for losses		(2,987)	(2,987)
Property and equipment in use		58,403	197,883
Other property and equipment in use		100,539	224,678
Accumulated depreciation		(42,136)	(26,795)
Deferred charges		12,371	15,444
Amortization and expansion costs		28,801	28,800
Accumulated amortization		(16,430)	(13,356)
Intangible assets		203,542	174,875
Other intangible assets		208,940	176,663
Accumulated amortization		(5,398)	(1,788)
Total assets		82,012,009	72,906,901

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Consolidated balance sheets December 31, 2011 and 2010 (in thousands of reais)

	NOTE	2011	2010
Liabilities			
Current liabilities		64,936,753	65,141,738
Deposits	14	11,512,454	9,414,808
Demand deposits		1,574,208	2,312,891
Interbank deposits		572,761	338,891
Time deposits		9,365,485	6,750,196
Other deposits		-	12,830
Open market funding	14	39,060,989	41,188,919
Own portfolio		22,838,450	24,182,649
Third-party portfolio		13,692,426	7,392,980
Free-trading portfolio		2,530,113	9,613,290
Funds from securities issued and accepted	14	1,703,462	1,233,358
Real estate bonds		1,518,581	1,227,339
Liabilities for foreign securities		184,881	6,019
Interbank transactions		30	1
Unsettled receipts and payments		30	1
Loans and onlending	14	916,591	110,814
Loans abroad		875,094	55,161
Onlending in Brasil – official institutions			
FINAME		41,497	55,653
Derivative financial instruments	9	2,523,524	1,965,767
Derivative financial instruments		2,523,524	1,965,767
Other liabilities		9,219,703	11,228,071
Collection and payments of tax and similar charges		2,666	19,841
Foreign exchange portfolio		224,381	1,162,107
Social and statutory	15	552,761	230,601
Tax and social security	15	238,783	107,363
Securities trading and brokerage		7,921,906	9,528,952
Sundry	15	279,206	179,207
Long-term liabilities		10,491,697	2,138,280
Deposits	14	2,698,606	1,158,736
Interbank deposits		3,644	-
Time deposits		2,694,962	1,158,736
Funds from securities issued and accepted	14	2,071,169	72,140
Real estate bonds		1,106,410	72,140
Liabilities for foreign securities		964,759	-
Loans and onlending	14	3,125	44,447
Onlending in Brasil – official institutions - FINAME		3,125	44,447
Derivative financial instruments	9	430,265	199,919
Derivative financial instruments		430,265	199,919
Other liabilities		5,288,532	663,038
Foreign exchange portfolio		-	54,172
Social and statutory	15	445	41,443
Tax and social security	15	521,157	442,811
Securities trading and brokerage		8,128	13,695
Subordinated debt	14	4,158,295	-
Sundry	15	600,507	110,917
Deferred income		31,590	24,290
Minority shareholding		212,207	-
Shareholders' Equity	18	6,339,762	5,602,593
Capital			
Domiciled in Brasil		2,132,664	2,494,701
Domiciled abroad		838,686	476,649
Capital increase		271,150	
Income reserves		3,097,262	2,631,243
Total liabilities and equity		82,012,009	72,906,901

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Statements of income
Years ended December 31, 2011 and 2010
(in thousands of reais, except net income per share)

	NOTE	2011	2010
Financial income		6,050,154	3,575,261
Loans		945,572	327,222
Marketable securities		4,589,133	2,698,331
Derivative financial instruments		225,031	480,948
Foreign exchange		249,322	68,760
Mandatory investments		41,096	-
Financial expenses		(4,549,660)	(2,428,516)
Funding operations		(4,002,023)	(2,458,926)
Borrowing and onlending		(517,615)	37,440
Allowance for losses on loans and other receivables		(30,022)	(7,030)
Gross financial income		1,500,494	1,146,745
Other operating income (expenses)		174,399	275,519
Income from services rendered	19	1,107,568	803,014
Personnel expenses		(359,663)	(227,700)
Other administrative expenses		(355,462)	(255,204)
Tax charges		(286,040)	(188,287)
Equity pick up from subsidiaries	13	(3,531)	-
Other operating income	20	158,100	173,565
Other operating expenses	21	(86,573)	(29,869)
Operating income		1,674,893	1,422,264
Non-operating income		9,217	(366)
Income before tax and profit sharing		1,684,110	1,421,898
Income and social contribution tax	17	199,099	(381,552)
Provision for income tax		(116,641)	(69,233)
Provision for social contribution		(54,625)	(39,644)
Deferred tax assets		370,365	(272,675)
Statutory profit sharing		(401,229)	(229,440)
Minority shareholding		(4,960)	-
Net income for the semester/year		1,477,020	810,906
Interest on equity		319,000	15,440
Quantity of shares in circulation at end of semester/year		2,400,000,000	2,400,000,000
Net earnings per share - R\$		0.62	0.34

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Statements of changes in shareholders' equity - Controller
Years ended December 31, 2011 and 2010
(in thousands of reais, except the dividend value per share)

NOTE	Capital	Increase in capital	Capital reserves	Income reserves		Retained earnings	Total
				Legal	Unrealized		
Balances at December 31, 2009	555,007	-	7,079	111,002	276,041	444,005	831,048
Dividends (R\$ 0.30 per share)	-	-	-	-	-	-	-
Capital increase	2,416,343	-	(7,079)	-	-	-	(373,637)
Constitution of reserves	-	-	-	-	1,477,729	-	1,477,729
Net income for the year	-	-	-	-	-	-	-
Net income allocations	-	-	-	-	-	810,906	810,906
Legal reserve	-	-	-	39,773	-	-	39,773
Statutory reserve	-	-	-	-	88,395	-	88,395
Unrealized income	-	-	-	-	194,298	-	194,298
Interest on equity	-	-	-	-	-	(15,440)	(15,440)
Distributed dividends (R\$ 0.20 per share)	-	-	-	-	-	(473,000)	(473,000)
Balances at December 31, 2010	2,971,350	-	-	150,775	470,339	2,010,129	2,631,243
Dividends (R\$ 0.20 per share)	-	271,150	-	-	-	(557,000)	557,000
Capital increase	-	-	-	-	-	-	271,150
Unrealized income	-	-	-	-	(56,492)	-	(56,492)
Net income for the year	-	-	-	-	-	-	-
Net income allocations	-	-	-	-	-	1,481,222	1,481,222
Legal reserve	-	-	-	74,061	-	-	74,061
Statutory reserve	-	-	-	-	1,009,653	-	1,009,653
Interest on equity	-	-	-	-	-	(319,000)	(319,000)
Distributed dividends (R\$ 0.06 per share)	-	-	-	-	-	(135,000)	(135,000)
Balances at December 31, 2011	2,971,350	271,150	-	224,836	413,847	2,462,782	3,101,465
						-	6,343,965

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Statements of cash flow Years ended December 31, 2011 and 2010 (in thousands of reais)

	NOTE	2011	2010
Operating activities			
Net income for the year		1,477,020	810,906
Adjusted net income		22,221	14,704
Equity pickup from subsidiaries	13	3,531	-
Depreciation and amortization		18,690	14,704
Adjusted net income for the year		1,499,241	825,610
(increase)/decrease in short-term interbank investments		969,309	(5,704,034)
(increase)/decrease in marketable securities and derivative financial instruments		(6,044,000)	(29,175,587)
(increase)/decrease in loans		(963,406)	(2,330,468)
(increase)/decrease in other receivables and other assets		(6,186,598)	(2,275,006)
(increase)/decrease in interbank transactions		(742,557)	(108,507)
(Decrease)/increase in other liabilities		2,617,126	9,124,296
(Decrease)/increase in deferred income		7,300	15,893
Cash generated from/(used) in operating activities		(8,843,585)	(29,627,803)
Investing activities			
Sale of investment		296	-
Sale of equity		250,022	-
Sale of property and equipment in use		66,582	-
Acquisition of investment acquisition		(1,094)	(687)
Acquisition of equity interests		(1,128,823)	-
Acquisition of property and equipment in use		(122,918)	(177,086)
Capital increase in subsidiaries		-	238
Acquisition of intangible assets		(98,490)	(173,890)
Dividends received		(1,034,425)	(351,425)
Cash generated from/(used) in investing activities			
Financing activities			
Increase/(decrease) in deposits		3,637,516	5,050,829
Increase/(decrease) in open market funding		(2,127,930)	32,132,303
Increase/(decrease) in loans and onlending		764,455	93,990
Increase/(decrease) in funds from securities issued and accepted		2,469,133	975,288
Capital increase due to share issuance		271,150	2,409,264
Interest in paid in capital		212,207	-
Distributed dividends		(319,000)	(15,440)
		(692,000)	(846,637)
Cash generated/(used) in the financing activities		4,215,531	39,799,597
Increase/(decrease) in cash and equivalent		(5,662,479)	9,820,369
Balance of cash and cash equivalent			
At beginning of the year	23	18,149,896	8,329,527
At end of the year	23	12,487,417	18,149,896
Increase/(decrease) in cash and equivalent		(5,662,479)	9,820,369

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Statements of added-value
Years ended December 31, 2011 and 2010
(in thousands of reais)

	NOTE	2011	2010
Income		7,238,467	4,521,605
Financial brokerage		5,836,108	3,510,138
Services rendered		1,107,568	803,014
Other		294,791	208,453
Expenses		(4,549,660)	(2,428,516)
Financial brokerage		(4,549,660)	(2,428,516)
Inputs acquired from third parties		(313,446)	(225,584)
Materials, energy and other		(8,386)	(6,258)
Outsourced services		(305,060)	(219,326)
Gross value added		2,375,361	1,867,505
Depreciation and amortization		(18,690)	(14,704)
Net value added produced by institution		2,356,671	1,852,801
Value added received in transfer		(3,531)	-
Equity pickup from subsidiary shareholding	13	(3,531)	-
Value added to be distributed		2,353,140	1,852,801
Distribution of value added		2,353,140	1,852,801
Personnel		760,892	457,140
Direct remuneration		727,028	428,489
Benefits		22,414	16,194
FGTS – government severance indemnity fund for employees		11,450	12,457
Tax, levies and contributions		86,933	569,832
Federal		46,969	539,851
Municipal		39,964	29,981
Remuneration from third-party capital		23,336	14,923
Rent		23,336	14,923
Remuneration from own capital		1,481,979	810,906
Interest on equity		319,000	15,440
Dividends		692,000	473,000
Retained earnings		466,019	322,466
Income		4,960	-

Notes are a part of the financial statements.

BANCO BTG PACTUAL S.A.

Notes to the consolidated financial statements
December 31, 2011 and 2010
(in thousands of reais)

1. Operating context

Banco BTG Pactual S.A. (Bank) is incorporated as a multiple bank, operating in conjunction with its subsidiaries (the Group), offering financial products and services relating to commercial, including exchange, and investment portfolios, credit, financing and investment, leasing and home loans.

The transactions are conducted as part of a group of institutions participating fully in the financial market, and certain transactions are intermediated by other institutions in the BTG Group.

On November 10, 2011, the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários, CVM) granted the Bank a registration as a public company in category A.

2. Corporate restructuring

Corporate reorganizations

On April 26, 2010 the Bank merged its controlled company BTG Pactual Investimentos S.A., for its equity book value on March 31, 2010, provided that the transaction did not result in increase in the capital stock, however, the goodwill ascertained in the acquisition of the Bank generated a tax credit of R\$ 87,183, recognized in the act of incorporation, approved by BACEN on December 21, 2010.

On June 15, 2011, the subsidiary of BTG Pactual Banking Limited, located in the Cayman Islands, was transformed into the Bank's branch.

On July 27, 2011, the Central Bank of Brazil (*Banco Central do Brasil*, Bacen) approved the indirect acquisition by the Bank of the shares representing the total capital of (i) BTG Pactual Asset Management Corp USA, established in New York, USA; (ii) BTG Pactual Asia Ltd, domiciled in Hong Kong, China; (iii) BTG Pactual Capital Corp USA, incorporated in Delaware, USA; (iv) BTG Pactual Global Asset Management Ltd, domiciled in Bermuda; (v) BTG Pactual Carry LP, domiciled in George Town, Ilhas Cayman, (vi) and of 99.3% of shares representing the capital BTG Pactual Europe LLP, domiciled in London, England. These transactions were approved in the Ordinary General Shareholders Meeting held on August 31, 2011. Previously, the controlling company of such companies was BTG Investments LP. As they are companies belonging to the same economic group, no premium or discount was verified in these transactions.

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On December 14, 2011 the merger of BTG Pactual Participações II S.A. by the Bank approved, without resulting in the capital increase of the Bank.

On December 31, 2011, following with BTG Group's restructuring process, the Bank proceeded with the merger of its controlling company Copacabana Prince Participações S.A. As a result of such transaction, R\$ 481,369 were accounted relating to the tax benefit relating to goodwill originally registered at Copa Prince.

Acquisitions

On September 20, 2010, the Bank acquired all Coomex Empresa Operadora do Mercado Energético Ltda. shares, which operates and has an outstanding position in the national power industry in marketing and rendering of special power services. The acquisition constitutes an important step taken by BTG Pactual in the merger of a physical and financial trading structure of commodities and expands the product mix connected to power offered to its clients. After the acquisition the company name was altered to BTG Pactual Empresa Operadora do Mercado Energético Ltda.(Coomex).

On September 2011, the full subsidiary, Coomex proceeded with the reverse merged of its controlled company BTG Pactual Agente Comercializador de Energia Ltda. As a result, the Group registered a tax benefit of R\$ 54,813.

On May 27, 2011, the Bank acquired all shares of Silvio Santos Group in Banco Panamericano S.A. (Panamericano), representing 37.64% of the retail institution, resulting from an interest of 51% in ordinary shares and 21.97% in preferred shares, Upon conclusion of this transaction and the corresponding BACEN approval, the Bank and the Caixa Econômica Federal (CEF), now hold a shared control over Panamericano, as defined by shareholders agreement.

On June 17, 2011, Banco BTG Pactual S.A. presented to the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*, CVM), a request for registration of tender offer of preferred shares issued by Panamericano to the remaining shareholders, for the same price paid for the share to the previous controlling shareholder. As the necessary adhesion did not occur, the program was terminated.

On November 22, the agreement between the Bank and WTorre Properties S.A. ("WTorre") was concluded. Due to this agreement, the Bank now holds, indirectly through its subsidiary Saíra Diamante S.A., 49.99% of the corporate interest in One Properties S.A. (previously referred to as WTorre). In this transaction, Saíra contributed R\$ 627,452 in assets, originally held by the Bank. In this transaction, the Bank registered a goodwill of R\$ 320,956, based on expected future profitability.

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Notes to the consolidated financial statements
December 31, 2011 and 2010
(in thousands of reais)

3. Financial statements presentation

The Bank's consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Brazilian Central Bank (BACEN), in accordance with the regulations and instructions of the National Monetary Council (CMN), the Central Bank of Brazil (BACEN) and the Brazilian Securities and Exchange Commission (CVM), when applicable.

The Bank's consolidated Financial Statements comprise the financial statements of the Bank, its overseas branches, subsidiaries, directly or indirectly, in the country and abroad, as well as investment funds and special purpose entities (SPE).

The preparation of financial statements in accordance with the accounting practices adopted in Brazil, applicable to financial institutions regulated by the Brazilian Central Bank, requires the Management to use its judgment to determine and register accounting estimates. The assets and liabilities subject to these estimates and assumptions refer, basically, to the income tax on assets and liabilities deferred charges, to the allowance for taxes and contributions with suspended eligibility and the allowance for contingent liabilities. The settlement of transactions involving these estimates may result in values different from the estimated, due to inaccuracies related to the process for its determination. The adopted estimates and assumptions are periodically reviewed by Management.

Bank's management has evaluated the presentation of the results with energy trading contracts generated by the wholly owned subsidiary Coomex, and has changed the accounting policies for classification of such results on the income statement in September 2012. The reclassification aims to present the results from energy derivatives from Coomex and the Bank in a single line in the statements of income. As a result, the financial statements for the years ended December 31, 2011 and 2010 originally approved by Bank's management is now being restated to present the effect of the revenue reclassification of energy contracts in the amount of R\$214,046 and R\$65,123 originally presented in "Other operating income" to "Derivatives financial instruments" in the statements of income for the years ended December 31, 2011 and 2010, respectively. These financial statements have been reissued with the special purpose to reflect this change in accounting policy described and to include in our Global Medium-Term Note Programme offering memorandum. The restated consolidated financial statements were approved by the Directors on January 8, 2013.

a. Consolidated financial statements

The consolidated financial statements were prepared in accordance with the consolidation criteria issued by the BACEN. Investments, the balances of assets and

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Notes to the consolidated financial statements
December 31, 2011 and 2010
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liabilities, revenues, expenses and unrealized profits among the companies, were eliminated, and were highlighted the net income and shareholders' equity relating to minority shareholders.

In addition to the criteria defined by the Brazilian Central Bank as of December 31, 2010, the management of the Bank adopted the consolidation criteria determined by the CVM Resolution 668/11, which states that investment funds should be consolidated. Consequently, the exclusive investment funds of consolidated companies were consolidated as from December 31, 2010.

The goodwill on acquisition of investments in subsidiaries and jointly controlled companies are shown as investments and intangible, while negative goodwill are presented as deferred income.

Investments in jointly controlled companies are recognized by the equity method.

Below are presented the subsidiaries and jointly controlled companies, consolidated in the consolidated financial statements of the Bank:

		Share in total capital - %	
	Country	2011	2010
Directly controlled			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Mercadorias Ltda.	Brazil	99.99	99.99
BTG Pactual Securitizadora S.A.	Brazil	99.99	99.99
BTG Pactual Agente Comercializador de Energia Ltda.(***)	Brazil	-	99.96
BTG Pactual Corporate Services Ltda(**)	Brazil	99.99	99.99
BTG Pactual Banking Limited (*)	Cayman	-	100.00
BTG Pactual Empresa Operadora do Mercado Energético Ltda.			
- Coomex	Brazil	99.99	99.99
BTG Pactual Holding International S.A.	Brazil	99.99	99.99
BTGP Recovery Holdings S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation(**)	Cayman	100.00	100.00
BTG Pactual Vivere Participações S.A.	Brazil	100.00	-
BW Properties S.A.	Brazil	67.49	-
Saíra Diamante Empreendimentos Imobiliários S.A.	Brazil	92.00	-
Global Ltd	Cayman	100.00	-
Indirectly controlled			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Serviços Energéticos Ltda. - Coomex	Brazil	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	-
BTG Pactual Europe LLP	England	100.00	-
BTG Pactual Asset Management US, LLC	EUA	100.00	-
BTG Pactual US Capital, LLC	EUA	100.00	-
BTG Pactual Asia Limited	Hong Kong	100.00	-
BTG Global Asset Management (UK) Limited	England	100.00	-
Recovery do Brasil Consultoria S.A.	Brazil	50.24	-
FC DAS S.A.	Uruguay	100.00	-
Investment funds			
BTG Pactual Absolute Return II Master Fund LP	Cayman	100.00	100.00

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Notes to the consolidated financial statements December 31, 2011 and 2010 (in thousands of reais)

Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Port Fund SPC - CLASS C	Cayman	99.83	99.83
Fundo de Investimento em Direitos Creditórios Não Padronizados			
Precatórios Selecionados I	Brazil	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados NPL I	Brazil	100.00	100.00
BTG Pactual Vanguarda Fundo de Investimento em Participações	Brazil	92.73	92.73
BTG Pactual Saúde Fundo de Investimento em Participações	Brazil	100.00	100.00
Nala Fundo de Investimento em Participações	Brazil	100.00	100.00
BTG Pactual Global Fund	Cayman	100.00	-
Fundo de Investimento em direitos Creditórios Multisegmentos	Brazil	100.00	-

(i) On June 15, 2011, BTG Pactual Banking Limited became a branch.
(ii) On December 31, 2010, BTG Pactual Overseas Corporation was classified within the indirect controlled group.
(iii) As of September, 2011 BTG Pactual Agente Comercializador de Energia Ltda was acquired by Pactual Empresa Operadora do Mercado Energético Ltda.

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b. Functional currency

The items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in reais (R\$), which is the Bank's functional currency. The closing date rate was used for translation of assets and liabilities, while the income statement is converted at the average rate of the period.

The financial statements of the companies headquartered abroad, originally stated in their transnational currencies, and were translated into Brazilian reais at the US dollar foreign exchange rate at the date of the financial statements.

In the financial statements, the effects of foreign exchange variations on investments are distributed in the income statement accounts according to their respective nature.

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Notes to the consolidated financial statements
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4. Significant accounting practices

The most relevant accounting practices adopted by the Bank are as follows:

a) Cash and cash equivalents

For the purposes of statements of cash flow, includes, according to Conselho Monetário Nacional - CMN Resolution No. 3,604/08, money in cash, banking deposits, and high liquidity short term investments, with immaterial risk of value change, with due date equal or inferior to 90 days.

b) Short-term interbank investments, remunerated Bacen deposits, remunerated deposits, open market funding, funds from securities issued and accepted, loans and onlendings, subordinated debts and other asset and liability transactions

The transactions with clauses of monetary/foreign exchange appraisal and transactions with fixed interest rates are recorded by the net present value of any transaction costs incurred, calculated on a pro rata daily basis, based on the effective interest of transactions.

c) Securities

Are valued and classified in accordance with the criteria established by BACEN Circular nº 3,068/01, under the following categories:

(i) Securities held for trading

Acquired with the purpose of being actively and frequently traded. Are registered by the acquisition cost, plus earnings and adjusted by their market value, against the result of the period.

(ii) Securities available for sale

Cannot be classified as trading nor as held to maturity. Are recorded at acquisition cost, plus earnings, against income and further valued at market value against shareholders' equity specific account, net of tax effects, which will only be recognized in the result at the time of their effective realization.

(iii) Securities held to maturity

Acquired with intention and financial capacity to be maintained in portfolio up to their maturity date. Recorded at acquisition cost, plus earnings against result of the period.

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Notes to the consolidated financial statements
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Decreases in market value of securities available for sale and maintained up to their maturity, below their respective restated costs, related to reasons considered as not temporary, will be reflected in the income statement as realized losses.

According to BACEN Circular No. 3,068, of November 8, 2001, securities classified as securities for trading are recorded in the Balance Sheet, in Current Assets, regardless of their maturity.

d) Derivative financial instruments

Are classified in accordance with the Management's intention, at the date the transaction is retained, taking into account if its purpose is hedge or not.

The transactions using financial instruments performed on their own, or that does not comply with the hedge criteria (mainly derivatives used to manage the global risk exposure), are accounted by their fair value, with gains and losses, realized or not realized, recognized directly in the results for the period.

The derivative financial instruments used to mitigate the risks arising from exposure to variations in the market value of financial assets and liabilities and that are highly correlated in relation to alterations in their market value in relation to the market value of the item that is being protected, in the beginning as well as during the life of the agreement and deemed as effective in the reduction of risk associated to the exposure to be protected, are deemed as hedge and are classified in accordance with their nature in:

- Market risk hedge: financial instruments included in this category, as well as their related financial assets and liabilities, subject to hedge, are measured at fair value and have their realized or not realized gains and losses, recorded in income statement account; and
- Cash flow hedge: the instruments included in this category are measured at fair value, being the effective portion of the recorded appreciation or depreciation, net from tax effects, in a separate account within shareholders' equity. The non-effective portion of the respective hedge is distinctively recorded in income statement account.

e) Fair value of securities, derivative financial instruments and other rights and obligations

The fair value of securities, derivative financial instruments and other rights and obligations, whenever applicable, is calculated based on market price, price evaluation models, or even based on the price determined for other financial instruments with similar characteristics. Therefore, at the time of financial settlement of these transactions, the results may be different from the estimated. The daily

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Notes to the consolidated financial statements
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adjustments of transactions performed in the futures market are recorded as effective income and expense when generated or incurred. The premium paid or received upon performance of transactions in the shares option market, other financial assets and commodities are recorded in the respective assets accounts for amounts paid or received, adjusted at market price against their results.

The transactions performed in the forward market of financial assets and commodities are registered by the final retained value, deducted from the difference between this amount and the price of the good or right adjusted at market prices, at the adequate assets or liabilities account. The income and expenses are recorded according to the term of their agreements.

The assets and liabilities resulting from swap and currency forward transactions – of non-delivery forward agreements (NDF) are registered in assets accounts for their accounting value, adjusted at market value, against their results, with no set-off between amounts payable and receivables.

The notional amount of agreements is recorded in set-off accounts.

f) Financial instruments – net presentation

Financial assets and liabilities are presented as net in the balance sheet if, and only if, there is a current and enforceable legal right to set-off the recorded amounts and if there is an intention to set-off, or to simultaneously realize the asset and settle the liability.

g) Loans and other receivables (transactions with characteristics of loans)

Recorded at current value, calculated daily "pro rata" based on the index variation and on the agreed interest rate, being updated until the 59th day of default for financial companies, provided the expected receipt. As from the 60th day, the recognition in the results occurs at the time of effective receipt of installments. Renegotiated transactions are maintained, at least, in the same level in which they were recorded before the renegotiation and, if they had already been eliminated against provision in allowance, are classified as level H; gains are recorded in income at the time of effective receipt.

h) Allowance for loan losses

Constituted based in the analysis of credit realization risk, in amount deemed as sufficient to cover eventual losses in compliance with the rules established by Resolution No. 2,682, of 12/21/1999, of the CMN, amongst which are highlighted:

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Allowances are constituted from loans, based on the classification of the client's risk, due to the periodical analysis of client quality and of activity industries and not only upon default.

Considering exclusively the default, marks down in loans against losses are made after 360 days from the credit due date or after 540 days, for transactions with term exceeding 36 months.

Allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio, in accordance with the criteria established by CMN Resolution nº 2,682/99.

i) Investments

Subsidiaries and colligated companies are evaluated by the assets equivalence method.. Câmara de Custódia e Liquidação (CETIP) securities were updated up to the date of its respective demutualization. Other investments in permanent assets are evaluated by their acquisition cost, minus, when applicable, allowance for losses.

j) Goodwill

Goodwill, based on the forecast of future results of the subsidiárias, is amortized in line with the forecast deadlines that justified it or, when the investment is written off, by disposal or loss, before the forecasts are achieved.

The goodwill is calculated in the group of investments, where it remains until the investment is realized.

The goodwill is calculated based on the difference between the paid acquisition value and the net book value.

k) Property and equipment in use and assets deferred charges

Recorded by their acquisition cost. Depreciation is calculated by the linear method based on the asset's economic working life period. Deferred charges expenditure corresponds, mainly, to improvements in third party real estate. Payment is calculated by the linear method based on estimated periods of usage and/or lease.

l) Intangible

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Corresponds to acquired rights that have as their subject intangible assets destined to the entities' maintenance or exercised with such purpose, in accordance with CMN Resolution No. 3,642, of 11/26/2008. Payment terms vary from five to ten years.

l) Decrease to the recoverable amount of assets (impairment)

Whenever there is clear evidence that the assets are evaluated by non-recoverable value it is recorded as loss in the results of the period. This procedure is performed at least at the end of each fiscal year.

n) Income and social contribution taxes

Allowances for income and social contribution taxes are constituted based on accounted income, adjusted by increases and exclusions provided by the tax legislation. Income tax and social contribution deferred charges are calculated on the value of temporary differences, whenever the realization of these amounts is considered as probable. For the income tax, the applicable rate is of 15%, plus additional 10% over annual income subject to tax exceeding R\$ 240 and of 15% for social contribution.

o) Contingent assets and liabilities, and legal, tax and social security obligations

Are made according to the criteria described below:

► Contingent assets

Are not recognized in financial statements, unless there is evidence ensuring their realization and they are based on unappealable decisions.

► Contingent liabilities

Are recognized in financial statements when, based in the opinion of legal advisors and management, the risk of loss on a judicial or administrative proceeding is considered probable, and when amounts involved can be measured reliably. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the explanatory notes, while those classified as remote losses do not require the recording of provisions or disclosure.

► Legal liabilities – tax and social security

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Refer to legal disputes challenging the legal and constitutional nature of some taxes and mandatory contributions. The amount under dispute is measured and accounted for.

p) Earnings per share

Calculated based on the quantity of shares in circulation on the dates of the balance sheets.

q) Recognition of income

The results of transactions are ascertained by competence regime.

r) Reclassification of prior period statements

As disclosed on note 3 the Bank has evaluated the presentation of the results with energy trading generated by our subsidiary Coomex and has changed the accounting policies in September 2012. The reclassification aims to present the results from energy derivatives from Coomex and the Bank in a single line in our income statement. As a result, R\$65,123 have been reclassified from income from energy trading, presented in other operating income to derivatives financial instruments in the statements of income for the year ended December 31, 2010.

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5. Risk management

a) Operating limits

In accordance with the recommendations of the New Capital Accord (Basel II), BACEN disclosed the methodology for calculation of the Reference Equity and Required Reference Equity, as from July 1, 2008, through CMN Resolutions 3,444/07 and 3,490/07. In addition, Circulars 3,360/07, 3,361/07 to 3,366/07, 3,368/07, 3,383/08, 3,388/08 and 3,389/08 of BACEN established the guidelines to determine the credit, market and operating risks.

The Basel Index was calculated based on the financial statements prepared in accordance with BR GAAP, on a consolidated basis, including all Bank's subsidiaries.

	2011	2010
Reference Equity ("PR")	8,430,976	5,567,094
	6,331,062	5,602,593
	3,165,531	-
Deductions from Reference Equity	(1,065,617)	(35,499)
Required Reference Equity ("PRE")	5,250,915	2,841,792
Credit risk	3,416,049	1,631,880
Market risk	1,553,458	943,183
Operating risk	281,408	266,729
Exceeding Required Reference Equity	3,180,061	2,725,302
Based Index: ("PR"x100)/"PRE"/0.11)	17.66%	21.55%

Management elected the basic indicator approach to measure the operating risk.

The limit of property, plant and equipment, as determined by CMN Resolution 2,283/96, as amended by Resolution 2,669/99 and with the wording of Resolutions 2,743/00 and 3,426/06, is also calculated on a consolidated basis considering all subsidiaries under the BR GAAP:

	2011	2010
Reference Equity	8,430,976	5,567,094
Equity securities	(6)	(4,276)
Reference Equity for limit of property, plant and equipment (Required Reference Equity)	8,430,970	5,562,818
Limit of proper, plan and equipment (50%)	4,215,485	2,781,409
Status for the limit of property, plant and equipment	3,034,871	2,256,144
Permanent assets	1,409,501	393,088
Deferred permanent assets	(8,772)	(11,073)
Equity securities	(6)	(4,276)
Intangible assets excluded from the limit of property, plant and equipment	-	(174,832)
Investment in associated companies and subsidiaries authorized to operate under BACEN	(427,132)	-
Variable income securities recorded in current assets	2,061,280	2,053,237
Margin	1,180,614	525,265

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As at December 31, 2011 and 2010, all operating limits were duly complied.

b) Market risk

Other scenarios envisaged for market behavior are properly simulated by means of Value-at-Risk calculation models and, especially, via stress tests and analysis of scenario, which allows the identification of the main risk components to be controlled. The development of computer systems that support the decision-making process enables the efficient performance of the investment process as a whole – including the selection, analysis, monitoring, optimization and simulation. The Value-at-Risk is calculated using historical simulation methodologies and, where necessary, the Monte Carlo simulation. The stress tests are conducted using three different models: historical stress test, worst case scenario and hypothetical stress test.

Value at risk, or VaR

VaR is the potential loss of value of the trading positions due to adverse movements in the market during a defined timeframe within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Bank's positions at market risk. The Bank uses a historical simulation for calculation of VaR, preserving real distributions and correlation amongst assets. The accuracy of the risk system is tested by means of processes indicating the historical degree of result accuracy (retrospective test), as well as the accuracy of current prognostics. VaR may be measured in accordance with different timeframes, historical windows of retrospective view and confidence levels.

One day's timeframe, confidence level of 95% and retrospective view window of one year were used for the VaR numbers below to be reported. Confidence level of 95% means that there is 1 within 20 chances that the day trade net income remains below the day trade net income foresaw for an amount at least as high as the reported VaR. Therefore, insufficiencies arising from net income expected from trade in one sole day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in one sole day may exceed the reported VaR in material amounts. Insufficiencies may also occur more frequently or accrue during a longer timeframe, such as the number of consecutive trading days. As it is backed up by historic data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historic distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one day timeframe does not fully capture the market risk of positions that may not be settled or set-off with hedges within the term of one day. As aforementioned, we use a Stress Test model as a VaR supplement in the Bank's risk management daily activities.

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The following table contains the daily average of VaR for the years ended, as indicated:

In millions of R\$	2011	2010	2009
Daily average VaR	28.4	21.5	10.3

c) Credit risk

All of the bank's counterparties and its subsidiaries are subject to careful credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The bank's counterparties credit limits and its subsidiaries are established by the Credit Committee and are regularly revised. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

d) Liquidity risk

The bank and its subsidiaries manage the liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from first tier counterparties at extremely competitive rates. The bank and its subsidiaries maintain a solid capital structure and a low level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

e) Operating risk

In line with the BACEN guidelines and the Basel Committee concepts, an Operating Risk Management applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

The bank and its subsidiaries have a strong tradition in operational risk management, which takes into account the assessment, monitoring, simulation and validation of risks, based in consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to comply with the requirements of regulatory agencies, to rapidly adjust to changes

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and to estimate future trends, among which the New Basel Capital Accord propositions are to be highlighted.

6. Cash and cash equivalents

The balance of this item refers basically to deposits abroad in first tier banks.

7. Short-term interbank investments

	2011				2010
	Total	Up to 90 days	From 91 to 365 days	From 1 to 3 years	Total
Open market investments	18,624,436	17,201,384	1,426,052	-	25,122,576
Own portfolio	4,121,337	3,915,872	205,465	-	750,594
Federal government bonds	1,572,128	1,366,663	205,465	-	750,594
Foreign bonds	2,259,143	2,259,143	-	-	-
Corporate bonds	290,066	290,066	-	-	-
Third party portfolio	13,153,965	12,544,078	609,887	-	7,583,389
Federal government bonds	11,026,064	10,416,177	609,887	-	7,583,389
Foreign bonds	2,127,901	2,127,901	-	-	-
Short position	1,349,134	741,434	607,700	-	16,788,593
Federal government bonds	1,056,754	449,054	607,700	-	16,788,593
Foreign bonds	292,380	292,380	-	-	-
Interbank deposits	958,600	816,955	126,858	14,787	86,740
Certificate of interbank deposit (*)	916,457	774,812	126,858	14,787	85,657
Investments of foreign currency - overnight	42,143	42,143	-	-	1,083
	19,583,036	18,018,339	1,549,910	14,787	25,209,316

(*) The balance of this item refers basically to interbank deposits in first-tier banks.

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8. Securities

a) Summary by type of portfolio

The breakdown by type of instrument and maturity of the securities portfolio is as follows:

	2011						2010
	Cost	Market	Up to 90 days	From 90 to 365 days	From 1 to 3 years	Over 3 years	Market
Own portfolio							
Federal government bonds	2,918,456	2,922,738	25,650	-	416,800	2,480,288	2,962,852
Debêntures/Eurobonds	4,184,172	4,293,557	124,079	633,409	1,360,002	2,176,067	2,174,488
Bank credit certificate	99,966	100,425	322	42,684	56,490	929	66,337
Investment fund quotas							1,136,872
Multimarket	943,039	943,038	212,092	-	730,946	-	-
Shares	118,511	118,511	118,511	-	-	-	-
Credit rights investment fund	449,263	449,263	-	-	449,263	-	-
Equity investment fund	838,674	838,674	-	-	838,674	-	-
Other	1,850	1,850	1,850	-	-	-	-
Shares	3,651,282	3,584,455	3,584,455	-	-	-	2,161,066
Promissory Notes	956,202	956,853	-	956,853	-	-	-
Certificate of real estate receivables	748,163	748,165	-	-	298,030	450,135	444,764
Foreign government bonds	-	-	-	-	-	-	322,395
United States	420,386	421,831	-	62,622	-	359,209	-
Others	58,519	55,648	-	1,530	42,099	12,019	-
Foreign corporate bonds	919,653	809,162	11,977	1,140	163,086	632,959	-
US Agencies	99,223	100,630	-	-	-	100,630	-
Sundry	199,662	188,809	-	-	153,168	35,648	90,079
	<u>16,607,021</u>	<u>16,533,609</u>	<u>4,078,936</u>	<u>1,698,233</u>	<u>4,508,558</u>	<u>6,247,882</u>	<u>9,358,853</u>
Free traded portfolio							
Federal government bonds	12,888	12,560	-	-	-	12,560	-
	<u>12,888</u>	<u>12,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,560</u>	<u>-</u>
Subject to repurchase agreements							
Federal government bonds	5,989,922	5,876,773	74,273	590,900	1,489,689	3,721,910	6,520,970
Foreign government bonds							15,877,177
United States	3,716,432	3,795,158	121,879	265,520	466,568	2,941,191	-
United Kingdom	1,178,366	1,181,677	-	-	220,657	961,020	-
Germany	279,709	275,426	-	-	-	275,426	-
Others	225,015	218,324	-	-	-	218,324	-
US Agencies	8,111,739	8,078,497	-	-	6,798,508	1,279,989	-
Debêntures / Eurobonds	897,964	888,799	6,928	-	240,611	641,260	385,063
Corporate foreign bonds	801,133	740,650	20,701	-	41,443	678,506	113,743
	<u>21,200,280</u>	<u>21,055,304</u>	<u>223,781</u>	<u>856,421</u>	<u>9,257,475</u>	<u>10,717,626</u>	<u>22,896,953</u>
Subject to guarantees							
Federal government bonds	2,149,655	2,148,776	-	158,090	410,296	1,580,390	792,929
Shares	84,567	86,294	86,294	-	-	-	957,959
	<u>2,234,222</u>	<u>2,235,070</u>	<u>86,294</u>	<u>158,090</u>	<u>410,295</u>	<u>1,580,390</u>	<u>1,750,888</u>
Securities held for trading	36,265,924	36,048,056	4,389,012	2,712,748	14,176,323	14,769,973	34,006,694
Securities held to maturity	3,788,487	3,788,487	-	-	-	3,788,487	-
	<u>40,054,411</u>	<u>39,836,543</u>	<u>4,389,012</u>	<u>2,712,748</u>	<u>14,176,323</u>	<u>18,558,460</u>	<u>34,006,694</u>

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b) Securities held for trading

	2011						2010
	Cost	Market	Up to 90 days	From 90 to 365 days	From 1 to 3 years	Over 3 years	Market
Own portfolio							
Federal government bonds	542,540	546,825	25,650	-	416,800	104,375	2,962,852
Debentures/Eurobonds	4,184,172	4,293,557	124,079	633,409	1,360,002	2,176,067	2,174,488
Bank credit certificate	99,966	100,425	322	42,684	56,490	929	66,337
Investment fund quotas							1,136,872
Multimarket	943,039	943,038	212,092	-	730,946	-	
Shares	118,511	118,511	118,511	-	-	-	
Credit rights investment fund	449,263	449,263	-	-	449,263	-	
Equity investment fund	838,674	838,674	-	-	838,674	-	
Other	1,850	1,850	1,850	-	-	-	
Shares	3,651,282	3,584,455	3,584,455	-	-	-	2,161,066
Promissory Notes	956,202	956,853	-	956,853	-	-	-
Certificate of real estate receivables	748,164	748,165	-	-	298,030	450,135	444,764
Foreign government bonds	-	-	-	-	-	-	322,395
United States	420,386	421,831	-	62,622	-	359,209	-
Others	58,519	55,648	-	1,530	42,099	12,019	-
Foreign corporate bonds	919,653	809,162	11,977	1,140	163,086	632,959	-
US Agencies	99,223	100,630	-	-	-	100,630	-
Sundry	199,662	188,809	-	-	153,163	35,646	90,079
	<u>14,231,106</u>	<u>14,157,696</u>	<u>4,078,936</u>	<u>1,698,238</u>	<u>4,508,551</u>	<u>3,871,971</u>	<u>9,358,853</u>
Free traded portfolio							
Federal government bonds	12,888	12,560	-	-	-	12,560	-
	<u>12,888</u>	<u>12,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,560</u>	<u>-</u>
Subject to repurchase agreements							
Federal government bonds	5,989,922	5,876,773	74,274	590,900	1,489,689	3,721,910	6,520,970
Foreign government bonds	-	-	-	-	-	-	15,877,177
United States	3,716,432	3,795,158	121,879	265,520	466,568	2,941,191	12,590,810
United Kingdom	1,178,366	1,181,677	-	-	220,657	961,020	1,635,532
Spain	-	-	-	-	-	-	195,151
Italy	-	-	-	-	-	-	285,112
Germany	279,709	275,426	-	-	-	275,426	791,490
Others	225,015	218,324	-	-	-	218,324	379,082
US Agencies	8,111,739	8,078,497	-	-	6,798,508	1,279,989	-
Debentures / Eurobonds	897,964	888,799	6,928	-	240,611	641,260	385,063
Corporate foreign bonds	801,133	740,650	20,701	-	41,443	678,506	113,743
	<u>21,200,280</u>	<u>21,055,304</u>	<u>223,782</u>	<u>856,420</u>	<u>9,257,476</u>	<u>10,717,626</u>	<u>22,896,953</u>
Subject to guarantees							
Federal government bonds	737,083	736,202	-	158,090	410,296	167,816	792,929
Shares	84,567	86,294	86,294	-	-	-	957,959
	<u>821,650</u>	<u>822,498</u>	<u>86,294</u>	<u>158,090</u>	<u>410,296</u>	<u>167,816</u>	<u>1,750,888</u>

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c) Securities held to maturity

	2011					2010	
	Cost	Market	Up to 90 days	From 90 to 365 days	From 1 to 3 years	Over 3 years	Market
Own portfolio							
Federal government bonds	2,375,915	2,375,915	-	-	-	2,375,915	-
	<u>2,375,915</u>	<u>2,375,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,375,915</u>	<u>-</u>
Subject to guarantees							
Federal government bonds	1,412,572	1,412,572	-	-	-	1,412,572	-
	<u>1,412,572</u>	<u>1,412,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,412,572</u>	<u>-</u>

The securities included in this category, if evaluated at market value, would present in December 31, 2011 a positive adjustment in the amount of R\$ 38,503.

The Bank has financial capacity to maintain such investments until maturity.

d) Reclassification of securities

The management classifies securities in accordance with its trading intention.

As established in article 5 of BACEN Circular No. 3,068/01, the revaluation in relation to the classification of securities may only be made at six-month trial balances. In addition, transference of category from maintained until maturity to others may only occur for individual, non-usual, non-recurrent and not foreseen reasons, which have occurred after the date of classification.

No reclassifications or intention alterations were made in the fiscal years by the management.

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9. Derivative financial instruments

The group actively engages in risk intermediation transactions involving derivative financial instruments, providing necessary hedge for their own needs and for that and their clients, with a view to reducing their exposure to market, currency and interest rate risks. Certain derivative financial instruments may be associated with operations involving marketable securities or rights and obligations. The risk underlying these operations is managed by means of strict control policies, the establishment of strategies, definitions of limits, among other monitoring techniques.

The transactions carried out in Brazil are traded, registered or held in custody by BM&FBOVESPA, and CETIP S.A. – OTC Clearing House ; transactions carried out abroad are traded and registered with first tier brokers.

On December 31, 2011 and 2010, the Bank does not have derivative financial instruments classified as hedge.

a) Registered in set-off and assets accounts

The notional amounts of transactions with financial instruments are recorded in set-off and adjustment/premium accounts in assets accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, take into account the provisions of BACEN Circular No. 3,389/08, which determines the exclusion of agreements in currency, gold and other assets connected to exchange exposure, with term in the first business day following the date the exchange exposure is verified.

	2011			Total	2010
	In up to 6 months	From 6 to 12 Months	Exceeding 12 months		Total
Future market					
Long position	131,916,617	1,800,703	17,692,793	151,410,113	64,555,762
Currency	3,067,981	3,413	1,104,146	4,175,540	2,229,036
Interest rate	127,956,561	1,610,763	16,551,744	146,119,068	31,895,679
Commodities	185,528	59,672	17,761	262,961	30,306,252
Index	706,547	116,578	16,897	840,022	124,795
Shares	-	10,277	2,245	12,522	-
Short position	5,709,558	2,789,987	7,056,832	15,556,377	50,120,609
Currency	477,352	1,021,930	3,282,415	4,781,697	5,746,150
Interest rate	2,913,252	1,322,485	3,377,482	7,613,219	6,787,434
Commodities	1,903,703	302,507	27,503	2,233,713	-
Index	159,233	87,691	-	246,924	37,522,374
Shares	256,018	55,374	369,432	680,824	64,651

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	2011			2010
	In up to 6 months	From 6 to 12 Months	Exceeding 12 months	Total
<i>Swap</i>				
Long position	5,957,265	6,374,286	31,048,922	43,380,473
Currency	275,828	914,993	390,152	1,580,973
Interest rate	1,946,317	4,051,182	27,080,365	33,077,864
Index	2,994,545	505,960	3,174,122	6,674,627
Shares	263,594	825,680	13,140	1,102,414
Commodities	18,659	158	-	18,817
Other	458,322	76,313	391,143	925,778
Short position	5,957,265	6,374,286	31,048,922	43,380,473
Currency	2,564,027	884,282	986,399	4,434,708
Interest rate	355,309	855,833	877,396	2,088,538
Index	2,626,567	3,867,260	28,727,846	35,221,673
Shares	176,953	1,027	3,440	181,420
Commodities	3,713	124	-	3,837
Other	230,696	765,760	453,841	1,450,297
<i>Credit derivatives</i>				
Long position	23,908	379	1,280,841	1,305,128
Sovereign	23,908	379	1,161,607	1,185,894
Corporate	-	-	119,234	119,234
Short position	937,550	191,545	2,009,594	3,138,689
Sovereign	375,020	187,795	1,878,337	2,441,152
Corporate	562,530	3,750	131,257	697,537
<i>Non-deliverable forward - NDF</i>				
Long position	9,530,061	4,263,618	2,933,483	16,727,162
Currency	3,804,118	347,523	138,997	4,290,638
Interest rate	5,725,943	3,916,095	2,794,486	12,436,524
Short position	9,530,061	4,263,618	2,933,483	16,727,162
Currency	8,899,393	3,945,635	2,794,486	15,639,514
Interest rate	349,789	317,983	130,064	797,836
Index	1,601	-	-	1,601
Shares	218,522	-	8,933	227,455
Others	60,756	-	-	60,756
<i>Deliverable forward - DF</i>				
Long position	1,156,182	898,798	-	2,054,980
Currency	1,156,182	898,798	-	2,054,980
Short position	1,156,182	898,798	-	2,054,980
Currency	1,156,182	898,798	-	2,054,980
<i>Forward securities</i>				
Long position	1,479,074	-	-	1,479,074
CDI	739,537	-	-	739,537
Securities	739,537	-	-	739,537
Short position	1,479,074	-	-	1,479,074
CDI	739,537	-	-	739,537
Securities	739,537	-	-	739,537
<i>Options market</i>				
Call option	175,328,623	47,090,146	177,464,831	399,883,600
Share	42,293,985	263,224	132,750	42,689,959
Commodities	243,857	-	-	243,857
Index	6,240,263	1,964,490	1,259,057	9,463,810
Currency	58,036,101	44,839,500	90,624,000	193,499,601
Interest rate	68,514,417	22,283	85,426,375	153,963,075
Other	-	649	22,649	23,298

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	2011				2010
	In up to 6 months	From 6 to 12 Months	Exceeding 12 months	Total	Total
Put option	126,547,381	64,271,459	202,999,775	393,818,615	67,598,003
Share	2,898,373	-	2,500,000	5,398,373	89,414
Commodities	663,610	-	-	663,610	-
Index	1,447,000	913,072	772,627	3,132,699	-
Currency	53,927,447	48,995,593	86,340,000	189,263,040	67,508,589
Interest rate	63,485,731	3,375,560	113,387,148	180,248,439	-
Other	4,125,220	10,987,234	-	15,112,454	-
Call option	213,145,806	121,386,135	94,205,669	428,737,610	17,106,306
Share	2,869,268	151,000	-	3,020,268	1,049,762
Commodities	243,763	-	-	243,763	-
Index	56,144,286	5,022,615	703,163	61,870,064	-
Currency	66,869,466	95,274,180	93,472,795	255,616,441	15,955,349
Interest rate	87,019,023	20,938,340	29,711	107,987,074	101,195
Put option	149,984,678	51,125,778	90,033,790	291,144,246	103,090,896
Share	2,158,179	46,380	125,700	2,330,259	992,403
Commodities	648,433	-	-	648,433	-
Index	6,900,198	2,087,009	703,163	9,690,370	-
Currency	57,224,488	48,813,718	89,192,930	195,231,136	102,098,493
Interest rate	83,053,380	178,671	11,997	83,244,048	-

b) By cost and market value

	2011					2010
	Cost	Market	In up to 6 months	From 6 to 12 months	Exceeding 12 months	Total
Futures						
Long position	22,516	22,517	15,166	2,052	5,299	-
Short position	(15,900)	(15,900)	(8,811)	(757)	(6,332)	-
Swap						
Long position	199,075	267,019	21,330	70,122	175,567	313,759
Short position	(409,901)	(466,791)	(67,786)	(212,496)	(186,509)	(229,590)
Credit derivatives						
Long position	101,109	151,046	1,624	117	149,305	-
Short position	(92,196)	(128,264)	-	(168)	(128,096)	-
Non-deliverable forward - NDF						
Long position	270,464	266,937	54,116	130,591	82,230	132,011
Short position	(75,909)	(74,379)	(37,727)	(11,899)	(24,753)	(205,907)
Deliverable forward - DF						
Long position	491,985	491,985	491,046	939	-	-
Short position	(491,120)	(491,120)	(491,120)	-	-	-
Forward transactions						
Long position	1,479,073	1,479,073	1,479,073	-	-	1,355,631
Short position	(1,479,073)	(1,479,073)	(1,479,073)	-	-	(1,360,086)
Options market						
Long position	286,150	378,783	212,436	103,641	62,706	253,705
Short position	(380,939)	(298,262)	(152,633)	(61,054)	(84,575)	(370,103)

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c) By counterparty

	2011				2010
	BM&FBovespa	Instituições Financeiras	Empresas	Total	Total
Mercado futuro					
Posição comprada	148,957,011	2,453,102	-	151,410,113	64,555,762
Posição vendida	8,669,398	6,886,980	-	15,556,378	50,120,609
<i>Swap</i>					
Posição ativa	4,231,389	37,215,845	1,933,239	43,380,473	28,041,029
Posição passiva	4,231,389	37,215,845	1,933,239	43,380,473	27,858,093
<i>Derivativos de crédito</i>					
Posição ativa	-	1,305,128	-	1,305,128	-
Posição passiva	-	3,138,689	-	3,138,689	-
Termo de moedas - NDF					
Posição ativa	-	15,622,448	1,104,713	16,727,161	13,091,957
Posição passiva	-	15,662,448	1,104,713	16,727,161	13,158,525
Termo de moedas - DF					
Posição ativa	-	1,455,316	-	1,455,316	-
Posição passiva	-	599,664	-	599,664	3,760,816
Operações a Termo					
Posição ativa	-	1,479,074	-	1,479,074	-
Posição passiva	-	1,479,074	-	1,479,074	-
Mercado de opções					
Posição comprada	47,893,235	31,476,987	-	79,370,221	96,026,891
Posição vendida	55,300,910	16,687,275	-	71,988,186	120,197,202

d) Credit derivatives

	2011	2010
Credit swap		
Transferred risk		
Sovereign	1,185,894	-
Corporate	119,234	-
Risk received		
Sovereign	(2,441,152)	-
Corporate	(697,537)	-
Total	(1,833,561)	-

During the period, there was no credit event related to triggering facts provided for in agreements.

In accordance with CMN Resolution no. 3.490, the effect on the calculation of the Required Equity (PRE) in 2011 is R\$ 1,729,127.

e) Margins granted as security

The security margin granted in operations traded in BM&FBovespa with derivative financial instruments is comprised by federal government securities in the amount of R\$ 2,187,464 (2010 – R\$ 624,043) and shares in the amount of R\$ 86,294 (2010 - R\$ 613,751).

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10. Credit operations

Loans are classified in risk levels in accordance with the criteria established by CMN Resolution No. 2,682/99.

This classification takes into consideration, amongst others, a periodic analysis of operation, of defaults, of client history and of security, as applicable.

Allowance for loan losses is calculated based on the client's risk level classification, defined in the aforementioned Resolution.

Loans and other operations with loan characteristics may be demonstrated as below:

a) Credit operations

i. By type of credit

Type of credit	2011		2010	
	Balance	Allowance	Balance	Allowance
Loans	2,987,490	(77,428)	2,576,442	(79,514)
Financing	1,399,992	(4,873)	1,002,652	(1,084)
FINAME/BNDES	44,647	(47)	100,535	(70)
Securities financing	315,299	-	102,713	-
Total	4,747,428	(82,348)	3,782,342	(80,668)

ii. By risk level and maturity

		2011					2010	
Risk level	Overdue	Payable			Total	Allowance	Total	Allowance
		In up to 6 months	From 6 to 12 months	Exceeding 12 months				
AA	-	1,296,053	387,077	765,009	2,448,139	-	2,611,238	-
A	-	672,549	216,515	605,409	1,494,473	(10,136)	783,781	(10,087)
B	-	153,884	90,285	291,992	536,161	(5,362)	202,950	(2,029)
C	1,974	18,514	17,297	18,310	56,095	(1,683)	30,197	(906)
D	10,243	98,806	15,426	13,781	138,256	(13,826)	17,298	(1,730)
E	-	-	-	-	-	-	90,417	(27,125)
F	22,699	-	1,513	-	24,212	(12,106)	-	-
G	-	6,943	4,896	24,351	36,190	(25,333)	25,568	(17,898)
H	-	-	-	13,902	13,902	(13,902)	20,893	(20,893)
Total	34,916	2,246,749	733,009	1,732,754	4,747,428	(82,348)	3,782,342	(80,668)

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iii. By activity sector

Sector	2011	2010
Commerce	31,908	45,119
Industry	872,011	899,640
Services	3,174,487	2,331,204
Rural	313,494	152,674
Individuals	355,528	353,705
Total	4,747,428	3,782,342

b) Other receivables – with credit assignment

Exclusively comprised by securities and receivables, relating to credit rights acquisition transactions, may be demonstrated as below:

i. By risk level and maturity

Risk level	2011					2010		
	Overdue	Payable			Total	Allowance	Total	Allowance
		In up to 6 months	From 6 to 12 months	Exceeding 12 months				
AA	-	65,093	106,003	464,451	635,547	-	575,837	-
A	-	-	-	-	-	-	1,197	(6)
B	2,955	10,707	3,169	9,230	26,061	(261)	46,680	(467)
C	175	-	-	-	175	(5)	-	-
D	-	-	-	-	-	-	159	(16)
Total	3,130	75,800	109,172	473,681	661,783	(266)	623,873	(489)

ii. By activity sector

Sector	2011	2010
Commerce	-	34,029
Industry	42,641	16,101
Services	619,142	573,417
Individuals	-	326
Total	661,783	623,873

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c) Advances in foreign exchange contracts

i. By risk level and maturity

Risk level	2011					2010	
	Overdue	Payable			Total	Allowance	Total
		In up to 6 months	From 6 to 12 months	Exceeding 12 months			
AA	-	97,577	-	-	97,578	-	-
A	15,720	42,465	218,696	-	276,881	(1,384)	50,038
B	-	190,037	-	-	190,037	(1,900)	17,283
Total	15,720	330,079	218,696	-	564,496	(3,284)	67,321

ii. By activity sector

Sector	2011	2010
Commerce	5,885	8,246
Industry	32,954	23,712
Services	525,657	35,363
Total	564,496	67,321

d) Allowance

Operations with allowance for losses on loans and other receivables with loan characteristics during the fiscal years was the following:

	2011	2010
Initial balances	(81,580)	(89,487)
Allowance reversal/(constitution)	(18,190)	(23,413)
FX on balance of oversea agency	(417)	-
Credits marked down for losses	14,289	31,320
Final balances	(85,898)	(81,580)
Composition of final balances		
Allowance for loan losses	(82,348)	(80,668)
Allowance for losses on other receivables	(266)	(489)
Allowance for advances on foreign exchange contracts	(3,284)	(423)
	(85,898)	(81,580)

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Changes in allowance for losses on other non-credit-extension receivables during the periods were as follows:

	Non-credit-extension receivables	
	2011	2010
Initial balances	(30,253)	(49,955)
Incorporation of amounts (i)	(617,496)	-
Allowance reversal/(constitution)	(11,832)	16,383
Credits marked down for losses	-	3,319
Final balances	(659,581)	(30,253)

(i) Refers to amounts from companies consolidated in 2011.

Allowances for other receivables with loan characteristics refer to the acquisition of credit rights, as demonstrated in item b of this note and allowances for other receivables without loan characteristics basically refer to credits arising from securities trading and brokerage, presented in note 12(b).

e) Renegotiation/recovery of credits written-off as losses

In the credit portfolio the amount of R\$ 88,718 refer to renegotiations occurred in the fiscal year ended December 31, 2011 (R\$ 31,031 in 2010). Credits marked down were recovered for losses in the amount of R\$ 19,566 (R\$ 8,594 in 2010).

g) Credit assignment

In 2011 credit assignment with coobligation were contracted in the amount of R\$ 295,783, with no effect in the fiscal years' results. There were no credit assignments in 2010.

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11. Other receivables/obligations

a) Foreign exchange portfolio

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange purchased/sold	753,727	101,311	680,732	598,180
Rights on foreign exchange sales	101,485	-	598,209	-
(-) Advances on foreign exchange contracts (i)	19,037	(545,459)	-	(67,321)
(-) Advances in foreign currency received	(94,335)	-	-	-
(-) Advances in national currency received	(3,739)	-	(5,934)	-
Liability for foreign exchange purchase	-	668,529	-	685,420
	<u>776,175</u>	<u>244,381</u>	<u>1,273,007</u>	<u>1,216,279</u>
Current	145,565	224,381	1,216,971	1,162,107
Long-term	630,610	-	56,036	54,172
(i) See note 10(c).				

Guarantees given in connection with foreign exchange transactions carried out through BM&FBOVESPA S.A. – Stock Exchange, Commodities and Futures (BM&FBOVESPA) are represented by federal government securities in the amount of R\$ 18,422 (2010 - R\$ 3,123).

b) Securities trading and brokerage

	2011		2010	
	Ativo	Passivo	Ativo	Passivo
Clearing houses	30,809	99,295	8,547	163,957
Comissions payable	-	154	-	-
Debtors/creditors – pending settlement account	4,372,440	3,727,062	1,757,948	714,362
Creditors for stock loans	-	1,613,269	-	1,173,165
Debtors for stock loans	-	-	223,008	-
Securities trading and brokerage	513	2,490,254	113	7,491,163
	<u>4,403,762</u>	<u>7,930,034</u>	<u>1,989,616</u>	<u>9,542,647</u>
Current assets	4,402,981	7,921,906	1,989,503	9,528,952
Long term	781	8,128	113	13,695

The item “Debtors/creditors – pending settlement account” is basically represented by amounts pending settlement within terms established in regulation, relating to transactions involving the purchase and sale of securities and financial asset agreements on BMF&BOVESPA, and abroad through first tier stockbrokers, on the Bank’s behalf or on behalf of third parties.

The item “Securities trading and brokerage” basically represents, in assets, swap intermediation transactions, and in liabilities, refers basically to sale of shares, to be settled within the terms established in regulation.

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12. Other receivables

a) Income receivable

	2011	2010
Dividends and bonuses	12,083	4,469
Receivable from services rendered receivable	208,608	92,144
Management and performance fees for investment funds and portfolios	145,974	111,147
Distribution fees	12,753	-
Commissions on guarantees	2,450	7,646
Other	9,614	8,219
	<u>391,482</u>	<u>223,625</u>
Current assets	356,677	223,625
Long term	34,805	-

b) Sundry

	2011	2010
Deferred tax assets	1,311,176	872,252
Judicial deposits	530,668	440,342
Recoverable taxes	220,499	172,366
Tax incentive options	1,317	1,317
Securities and credits receivable		
With loan characteristics (i)	661,783	623,873
Without loan characteristics	3,090,260	139,525
Other debtors – local	1,312,799	50,646
Sundry	8,704	86,094
	<u>7,137,206</u>	<u>2,386,415</u>
Current assets	5,240,085	854,095
Long term	1,897,121	1,532,320

(i) See note 10 (b).

(ii) Refers to the acquisition of payroll loans and vehicle financing by the Investment Funds in Credit Rights - FIDC. These were recorded under this classification, since the acquisition of the portfolio did not take into account the criteria for each of the individual contracts and the subsequent control runs for the portfolio as a whole and not transaction by transaction .

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13. Investment in associates and jointly controlled entities

The Bank had no investment in subsidiary companies as of 2010.

Jointly controlled companies			
	Shareholders' equity	Net income	
In Brazil			
Banco Panamericano S.A.	1,398,350	11,181	
Warehouse 1 Empreendimentos Imobs S.A.	40,089	(3,237)	
Max Casa XIX Empreendimentos Imobs S.A.	14,358	(2,179)	
ACS Omicron Empreendimentos Imobs S.A.	18,414	3,898	
One Properties S.A.	658,287	(200,444)	
Vivere Soluções e Serviços S.A.	29,997	5,070	
Jointly controlled companies			
	Equity interest	Investment	Equity pickup
In Brazil			
Banco Panamericano S.A.(iii)	37.64%	522,138	(27,236)
Ágio - Banco Panamericano.		(99,209)	-
Warehouse 1 Empreendimentos Imobs S.A.	35.00%	14,031	(1,133)
Ágio - Warehouse 1 Empreendimentos Imobs S.A.		14,136	-
Max Casa XIX Empreendimentos Imobs S.A.	50.00%	7,179	(1,572)
ACS Omicron Empreendimentos Imobs S.A.	44.74%	8,239	2,327
Ágio - ACS Omicron Empreendimentos Imobs S.A.		6	-
One Properties S.A.	49.99%	329,078	22,583
Ágio One Properties S.A.		320,956	-
Vivere Soluções e Serviços S.A.	30.00%	8,738	1,500
		1,125,292	(3,531)
(i)	Acquired in November 2011		
(ii)	Acquired in October 2011		

a) Banco Panamericano S.A

On May 27, 2011, as mentioned in Note 1, the Bank purchased 37.64% of Banco Panamericano's interest for the amount of R\$ 450,000. At the date of completion of the transaction, a discount in the amount of R\$ 99,209 was verified.

Panamericano acts mainly in the direct consumer credit market, operating personal credit lines and vehicles financings, building materials, furniture, tourism, appliances and others. Through its direct and indirect subsidiaries, also acts in leasing of vehicles and other goods, insurance in the collective personal accident segment, incomes for random events (unemployment insurance), life in groups and personal damages - DPVAT and vehicles and real estate consortium. Benefits from services rendered amongst companies of the Panamericano Group and costs of operational and administrative structures are jointly or individually absorbed by these companies.

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b) BW Properties S.A. (“BW”)

On November 22, 2011, the Bank acquired a 67.49% share in BW by providing capital of R\$159,803. Of this total R\$ 109,712 was paid up in cash and the remaining R\$ 50,142 paid in assets represented by *Certificados de Potencial Adicional de Construção* (CEPACs), potential additional construction certificates. As a result of this transaction a premium was calculated based on the expected future profitability of R\$ 21,585.

The Bank’s management tested recoverability on goodwill and concluded that there is no need to acknowledge any impairment allowance for the year.

The corporate object of BW is development and investment in real estate projects, administration and letting own property and investing in other companies.

c) Saíra Diamante Empreendimentos Imobiliários S.A.(“Saíra”)

On October 31, 2011, the Bank acquired the remaining 30% shares in Saíra, and became the holder of 100% of total equity.

Later, on November 22, 2011, the capital of Saíra was increased in R\$ 1,476,822, the Bank having contributed with R\$ 1,376,522, and third parties with R\$ 96,079. Consequently, the Bank now holds 92% shareholding in Saíra.

Of the full amount paid by the Bank, R\$ 235,523 was paid in cash and the remaining balance of R\$ 1,140,999 by transferring assets held by the Bank in the investment funds in Participações Ventura II and Development II in the amounts of R\$ 341,938 and R\$ 519,090, respectively.

Also, the Bank transferred the net assets of R\$ 279,970 relating to the property in the Faria Lima region, Sao Paulo state.

As a result of this capital increase, the Bank now holds 92% investment in Saíra.

On December 31, 2011, the total goodwill for this investment is R\$ 57,109. This goodwill is fully based on the expected future profitability. The Bank’s management tested impairment on this goodwill and concluded that there is no need to acknowledge any impairment provision for the year.

The corporate object of Saíra is development and investment in real estate projects, administration, letting its own property and investing in other companies.

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D) Warehouse 1 Empreendimentos Imobiliários S.A. (“Warehouse”)

Banco BTG has a shareholding of 35% in the company, which is developing real estate assets in Rio de Janeiro. The total amount invested is R\$ 29,300, and a goodwill was calculated based on future profitability of R\$ 14,136.

The Bank’s management tested impairment on this goodwill and concluded that there is no need to acknowledge any impairment provision for the year.

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14. Fund raising and loans and onlending

a) Summary

	2011					2010	
	Total	In up to 90 days	From 90 to 365 days	From 1 to 3 years	From 3 to 5 years	Exceeding 5 years	Total
Deposits	14,211,060	4,949,483	6,562,971	1,557,093	97,511	1,044,002	10,573,544
Open market funding	39,060,989	38,491,170	569,819	-	-	-	41,188,919
Funds from securities issued and accepted	3,774,632	667,147	1,036,315	426,904	1,059,852	584,414	1,305,498
Loans and onlending	919,716	159,913	756,678	2,143	982	-	155,261
Subordinated debts	4,158,295	-	-	-	415,830	3,742,465	-
	62,124,692	44,267,713	8,925,783	1,986,140	1,574,175	5,370,881	53,223,222

b) Deposits

	2011					2010	
	Total	In up to 90 days	From 90 to 365 days	From 1 to 3 years	From 3 to 5 years	Exceeding 5 years	Total
Demand deposits	1,574,208	1,574,208	-	-	-	-	2,312,891
Interbank deposits	576,405	194,456	378,305	3,644	-	-	338,891
Time deposits	12,060,447	3,180,819	6,184,666	1,553,449	97,511	1,044,002	7,908,932
Other deposits	-	-	-	-	-	-	12,830
	14,211,060	4,949,483	6,562,971	1,557,093	97,511	1,044,002	10,573,544

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c) Open market funding

Open market funding is underlined on the following securities:

	2011					2010	
	Total	In up to 90 days	From 90 to 365 days	From 1 to 3 years	From 3 to 5 years	Exceeding 5 years	Total
Own portfolio	22,838,450	22,393,445	445,005	-	-	-	24,182,649
Federal government bonds	5,885,970	5,885,970	-	-	-	-	6,447,058
Foreign bonds	16,160,849	16,160,849	-	-	-	-	15,981,003
Corporate securities	791,631	346,626	445,005	-	-	-	1,754,588
Third-party portfolio	13,692,426	13,692,426	-	-	-	-	7,392,980
Federal government bonds	11,572,280	11,572,280	-	-	-	-	7,382,102
Foreign government bonds	4,836	4,836	-	-	-	-	-
Corporate securities	3,017	3,017	-	-	-	-	10,878
Foreign bonds	2,112,293	2,112,293	-	-	-	-	-
Free-trading portfolio	2,530,113	2,405,299	124,814	-	-	-	9,613,290
Federal government bonds	2,239,367	2,114,553	124,814	-	-	-	9,613,290
Foreign bonds	290,746	290,746	-	-	-	-	-
	39,060,989	38,491,170	569,819	-	-	-	41,188,919

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d) Funds from securities issued and accepted

	2011					2010
	In up to 90 days	From 90 to 365 days	From 1 to 3 years	From 3 to 5 years	Exceeding 5 years	Total
Securities – Brazil						
Real estate credit bills/agribusiness	2,624,992	664,298	854,283	412,654	109,343	584,414
	2,624,992	664,298	854,283	412,654	109,343	584,414
Securities – abroad						
Medium term notes	1,149,640	2,849	182,032	14,250	950,509	-
Credit linked notes	1,143,042	-	178,282	14,250	950,509	-
	6,599	2,849	3,750	-	-	-
	3,774,632	667,147	1,036,315	426,904	1,059,852	584,414
						1,305,498

(i) These notes were issued on July 8, 2011 in the amount of USD 500.000 with repayment every six months, January 8 and July 8, and final maturity on July 8, 2016.

e) Loans and onlending

	2011					2010
	In up to 90 days	From 90 to 365 days	From 1 to 3 years	From 3 to 5 years	Exceeding 5 years	Total
Loans abroad	875,094	142,220	732,874	-	-	55,161
Foreign currency liabilities	541,493	142,220	399,273	-	-	55,161
Liabilities for loans abroad	333,601	-	333,601	-	-	-
Onlending in Brazil – official instances	44,622	17,693	23,804	2,143	982	100,100
FINAME	44,622	17,693	23,804	2,143	982	100,100
	919,716	159,913	756,678	2,143	982	155,261

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f) Subordinated debt

On December 31, 2011, the outstanding balance of this item in the amount of R\$ 4,158,295, is represented by financial bills issued on April 15, 2011, with repayment every six months since October 2016 and maturity on April 15, 2021, indexed to inflation rates plus fixed income rates.

15. Other obligations

a) Social and statutory

	2011	2010
Dividends payable	176	-
Employees' profit sharing	449,842	230,601
Bonuses payable	103,188	41,443
	<u>553,206</u>	<u>272,044</u>
Current assets	552,761	230,601
Long-term	445	41,443

a) Tax and social security

	2011	2010
Tax and contributions to be collected	116,081	42,596
Tax and contributions payable	83,718	79,399
Deferred social contribution and income tax	48,720	9,744
Tax with suspended collection	511,421	418,435
Tax and contributions payable	<u>759,940</u>	<u>550,174</u>
Current assets	238,783	107,363
Long-term	521,157	442,811

c) Sundry

	2011	2010
Payable for acquisition of assets and rights	569,694	83,074
Allowance for accounts payable	201,371	168,242
Provision for contingent liabilities	27,719	27,579
Payable to related parties	163	7,733
Others	80,766	3,496
	<u>879,713</u>	<u>290,124</u>
Current assets	279,206	179,207
Long-term	600,507	110,917

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16. Contingent assets and liabilities and legal, tax and social security obligations

The Bank's Management evaluates existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings, whenever necessary. Management's judgment is based on the opinion of its outside lawyers regarding the expected outcome for each proceeding.

a) Contingent assets

On December 31, 2011 and 2010 the Bank recorded no contingent assets.

b) Contingent liabilities classified as probable losses and legal obligations

Labor provisions

These related to suits filed by former employees, mostly claiming overtime and equal pay. The contingencies are accrued for based on analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

Civil Provisions

For civil suits with chances of unfavorable outcome (pain and suffering and property damages, among others requesting sentences to condemn), the contingency amounts are accrued for based on the opinion of internal and external legal counsel.

Tax and social security provisions

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and local taxes, regarding legal obligations and contingent liabilities. The provisions are set up considering the opinion of the internal and external legal counsel and the court level to which each proceeding was submitted.

c) Break down and changes in provisions in the period

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being a party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, management considers that the provisions set up for such proceedings at December 31, 2011 are adequate to cover any losses arising therefrom.

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The provisions set up and their changes in the period can be stated as follows:

	2011	2010
Balance at the beginning of the year	446,014	348,720
Set up	105,541	101,387
Credit written off	(12,415)	(4,093)
Balance of the end of the year	<u>539,140</u>	<u>446,014</u>

BTG Pactual Group has challenged in court the legal nature of some taxes and mandatory contributions. Relevant tax amounts have been fully provided for, although there are good chances of a favorable outcome, according to the opinion or assessment of the Bank's outside lawyers. The following legal disputes are to be mentioned:

COFINS – Challenge of the legal grounds for the levy of COFINS under rules established by Law No. 9,718/98.

PIS – Challenge of the levy of PIS established by Constitutional Amendments No. 10 of 1996 and No. 17 of 1997.

CSL – Challenge of CSL payment required from financial institutions in the period from 1996 to 1998 at rates higher than those applied to legal entities in general, opposing the constitutional principle of equality.

No significant contingencies have been assessed as possible losses by outside lawyers that were not disclosed.

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17. Income tax and social contribution

The reconciliation of income tax and social contribution expenses with the figure obtained by applying the tax rate on income before these taxes is shown below:

Income tax and social contribution	2011	2010
Calculation base	1,282,881	1,192,458
Income before taxation and profit sharing	1,684,110	1,421,898
Statutory interest	(401,229)	(229,440)
Encargo total do imposto de renda e contribuição social às alíquotas de 25% e 15%, respectivamente	(513,152)	(476,983)
Permanent (addition) / exclusions in taxation calculation	201,001	8,529
Equity in the earnings of subsidiaries and associated companies in Brazil	(1,412)	-
Income / (Loss) of fx revaluation on foreign investments	58,904	-
Interest on capital	127,600	6,176
Dividends	15,360	4,351
Other permanent additions (exclusions)	549	(1,998)
Temporary (additions) / exclusions on the taxation calculation	248,873	339,488
Amortization of goodwill on the acquisition of investments	373,400	366,301
Marked-to-market evaluation of securities and derivative financial instruments	10,630	(13,677)
Allowance for loan losses	(8,353)	9,588
Contingencies	(24,574)	(22,327)
Losses of foreign branches	(81,352)	-
Other provisions	(20,878)	(397)
(Creation) / offset on tax loss carryforwards	107,986	(20,089)
Income tax and social contribution expenses	(171,266)	(108,877)
Temporary differences		
Creation / (reversal) for the year	(192,356)	(359,858)
Goodwill on the acquisition of investments	481,369	87,183
Loss on investments abroad	81,352	-
(Expenses) / revenues from deferred taxes	370,365	(272,675)
Total revenues / (expenses)	199,099	(381,552)

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Income tax and social contributions are calculated and recorded in accordance with criteria established by the Central Bank Circular No. 3.059/02, taking into account the period of realization.

Changes in deferred tax assets, in line item "Other credits – Sundry" (Note 12(b)), are as follows:

Income tax and social contribution	2010	Creation	Realization	2011
Tax loss carryforwards	166,030	189,564	(3,822)	351,772
Allowance for loan losses	67,680	73,788	(65,435)	76,033
Adjustment to market value of securities and derivatives	14,202	442,896	(453,522)	3,576
Goodwill on the acquisition of investments	457,631	536,182	(373,401)	620,412
Tax contingencies and provision for taxes with suspended payment	104,474	24,575	-	129,049
Other provisions(i)	62,235	78,568	(10,469)	130,334
	<u>872,252</u>	<u>1,345,573</u>	<u>(906,649)</u>	<u>1,311,176</u>

- (i) In september, 2011, the wholly owned subsidiary, BTG Pactual Empresa Operadora do Mercado Energético Ltda.(Coomex) conducted a reverse merger transaction from its parent BTG Pactual Agente Comercializador de Energia Ltda. As a result, the Bank registered a tax benefit in the amount of R\$ 54,813.

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

	Tax credits on temporary differences	Tax loss carryforwards	Total
2012	207,334	137,603	344,937
2013	289,708	133,548	423,256
2014	160,659	80,621	241,280
2015	147,598	-	147,598
2016 onwards	140,359	-	140,359
	<u>945,658</u>	<u>351,772</u>	<u>1,297,430</u>
Present value	<u>730,954</u>	<u>295,005</u>	<u>1,025,959</u>

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18. Equity

a) Capital stock

At December 31, 2011 and 2010, the capital, fully subscribed and paid up, consists of 2,400,000,000 shares, 1,200,160,000 of which are common stock, 298,445,596 class A preferred stock and 901,394,404 class B preferred stock, all nominative with no par value..

At the extraordinary general meeting on December 9, 2010, the following decisions were determined and approved by BACEN on December 24, 2010:

- (i) creation of preferred shares class A and class B without voting rights and, in case of the Bank's dissolution, these shares are entitled to priority in reimbursement, without premium, of the capital stock. The shares class B are convertible into common shares or preferred class A shares, in accordance with the conditions set forth in the Bylaws
- (ii) reverse split-off of all 1,253,583,889 common shares issued by the Bank, due to which the capital stock was comprised of 1,952,331,606 common shares, all book-entry shares with no par value.
- (iii) conversion of 901,394,404 common shares into 901,394,404 preferred shares class B.
- (iv) capital increase of R\$ 2,409,264 upon issuance of 447,668,394 new shares, of which 149,222,798 are common shares and 298,445,596 are preferred shares class A.

The extraordinary general meeting on April 30, 2010, which was approved by BACEN on December 8, 2010, approved the capital increase of R\$ 7,079 by realizing a capital reserve without issuing new shares.

At the extraordinary general meeting on December 31, 2011, the increase in the company's capital stock was approved to the total sum of R\$ 271,150. This decision still awaits approval from BACEN.

b) Legal reserve

This reserve is established at the rate of 5% net income for the year, before any other appropriation, and shall not exceed 20% of the capital.

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c) Statutory reserve

In accordance with the bylaws, the purpose of this reserve is to maintain working capital and is limited to the balance of the capital.

d) Unrealized income reserve

Established considering undistributed dividends from foreign subsidiaries.

e) Profit distribution

The shareholders are entitled to minimum dividends of 1% on the net income for the year adjusted in accordance with article 202 of Law no. 6,404/76.

The board meetings on March, 18, April 26 and September 20, 2010, decided on dividend distributions referring to profits for previous years of R\$ 133,061, R\$ 13,000 R\$ 227,576 and R\$ 473,000, respectively.

On September 20, 2010, interest on equity was determined in the amount of R\$ 15,440, generating a tax benefit resulting from deductibility of expense, in the amount of R\$ 6,176.

The extraordinary general meetings on March 17, July 1 and September 19, 2011, decided on dividend distribution of R\$ 210,000, R\$ 150,000 and R\$ 197,000, respectively, for the previous years.

The extraordinary general meeting on December 5, 2011, decided on dividend distribution of R\$ 135,000 referring to the Bank's retained earnings in the first semester of 2011.

On December 31, 2011, interest on equity was determined in the amount of R\$ 319,000, generating a tax benefit resulting from deductibility of expense, in the amount of R\$ 127,600.

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f) Reconciliation of net income and shareholders' equity

	Year 2011	Year 2010
Banco Pactual S.A.	1,481,222	810,906
Refers to the reconciliation of net income and shareholders' equity of Banco Panamericano S.A. (*) individual and consolidated financial statements.	(4,202)	-
Banco Pactual S.A. Consolidated	1,477,020	810,906

(*) The consolidated information presented by Banco Panamericano SA include its subsidiaries, direct and indirect, and special purpose entities, represented by investment in receivables (FIDC). In the process of consolidation of the FIDC, the unrealized gains from disposals of operations of the credit for their Panamericano FIDC are eliminated resulting in a difference between the net worth individual and consolidated shareholders' equity. The reflection of this difference is also found between the individual and consolidated net assets of the Bank BTG Pactual SA due to the recognition of investment in Panamericano through the equity method.

19. Income from services rendered

	Year 2011	Year 2010
Management fees and performance bonuses for investment funds and portfolio	511,447	343,413
Brokerage	107,660	107,673
Technical advisory services	343,462	265,706
Commission on the placement of securities	72,378	64,257
Guarantees	46,068	-
Other services	26,555	21,965
	1,107,568	803,014

20. Other operating income

	Year 2011	Year 2010
Credit recovery	5,695	-
Reversal of allowances – employees profit sharing	20,650	-
Reversal of allowances – sundry	604	98,964
Indemnification for judicial recovery	-	31,680
Reversal of allowances – contingencies	15,272	-
Asset monetary variation	70,675	25,684
Foreign exchange variation	25,129	-
Other operating income	20,075	17,237
	158,100	173,565

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21. Other operating expenses

	Year 2011	Year 2010
Other operational provisions	1,350	-
Expense with tax update	4,407	2,949
Reimbursements of operating financial costs	8,131	3,787
Provision for goodwill	31,808	8,377
Atualization on accounts payable due to acquisition of assets or rights	33,418	-
Sundry	7,459	14,756
	<u>86,573</u>	<u>29,869</u>

22. Related parties

Institutions comprising the BTG Pactual Group invest their cash and cash equivalents mainly in funding products offered by Banco BTG Pactual S.A.

The balance of transactions involving the related parties, which are carried out at arm's length, is reflected in the following accounts:

	Relationship	2011		2010	
		Assets	Revenues	Assets	Revenues
Assets					
Short-term interbank investments					
Open market investments					
- Banco Panamericano S.A.	Associate	-	1,714	-	-
Interbank deposits					
- Banco Panamericano S.A.	Associate	500,504	2,128	-	-
Marketable securities and derivative financial instruments					
Derivative financial instruments					
- BTG Investments LP	Associate	81,334	76,608	-	-
Other receivables					
Income receivable					
- BTG Global Asset Management Limited.	Subsidiary	-	46,777	15,398	52,685
Sundry					
- Max Casa XIX Empreendimentos Imobiliários S.A.	Associate	4,936	-	-	-
- ACS Omicron Empreendimentos Imobiliários S.A.	Associate	12	-	-	-
- Warehouse 1 Empreendimentos Imobiliários S.A.	Associate	432	-	-	-
- Saíra Diamante Empreendimentos Imobiliários S.A.	Associate	10	-	-	-
		<u>587,228</u>	<u>127,227</u>	<u>15,398</u>	<u>52,685</u>

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	Relationship	2011		2010	
		Assets	Revenues	Assets	Revenues
Liabilities					
Deposits					
Demand deposits					
- BTG Pactual Stigma Participações S.A.	Associate	-	-	89	-
- BTG Pactual Proprietary Feeder (1) Limited	Associate	249	-	-	-
- BTG Investments LP	Associate	2,120	-	-	-
- BTG Pactual Reinsurance Holdings LP	Associate	939	-	-	-
- BTG MB Investments LP	Associate	9,425	-	-	-
- BTG Pactual Beta Participações S.A.	Associate	10	-	-	-
- BTG Pactual Pharma Participações S.A.	Associate	11	-	-	-
- BTG Equity Investments LLC	Associate	194	-	-	-
- BTG Pactual Stigma LLC	Associate	140	-	-	-
- BTG Alpha Participações Ltda.	Associate	70	-	44	-
- BTG Alpha Investments LLC	Associate	1,029	-	5	-
- Sócios e pessoal chave da administração	Partners	449	-	17	-
Time deposits					
- BTG Pactual Stigma Participações S.A.	Associate	110	4	-	-
- BTG Pactual Alpha Participações Ltda.	Associate	258	209	3,371	(342)
- BTG Pactual Beta Participações S.A.	Associate	1,459	168	-	-
- BTG Pactual Pharma Participações S.A.	Associate	1,702	272	-	-
Open market funding					
Own portfólio					
- Banco Panamericano S.A.	Associate	629,374	29,656	-	-
Third-party portfólio					
- Banco Panamericano S.A.	Associate	9,999	-	-	-
Other liabilities					
Securities trading and brokerage					
- BTG Investments LP	Associate	69,420	-	-	-
		726,974	30,309	3,526	(342)

Total compensation paid to key personal in the year was in the amount of R\$ 2,961 (R\$ 6,662 in 2010) which is considered a short-term benefit.

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23. Other information

a) Cash and cash equivalent

	2011	2010
Balances at the beginning of the period		
Cash and cash equivalents	1,522,813	62,636
Open market investments	16,622,980	7,725,116
Interbank deposits	4,103	541,775
	<u>18,149,896</u>	<u>8,329,527</u>
Balances at the end of the period		
Cash and cash equivalents	517,305	1,522,813
Open market investments	11,424,916	16,622,980
Interbank deposits	545,196	4,103
	<u>12,487,417</u>	<u>18,149,896</u>

b) Commitments and responsibilities

The bank's and its subsidiaries have the following main commitments and responsibilities:

	2011	2010
Co-obligation and risks for guarantees given	5,278,935	1,122,929
Responsibility for the management of	34,477,778	8,034,551
Investment funds and portfolio management (i)	142,531,821	40,246,349
Securities under custody	857,584,457	692,958,980

(i) Records all equity value of investment funds and portfolio.

“Co-obligation and risks for guarantees given”, is basically comprised by guarantees granted allocated to exchange trading securities.

“Securities under custody” reflect third party public and private securities positions, under custody with SELIC, CETIP S.A. and BM&FBOVESPA S.A.

“Securities trading and brokerage” represent amounts from derivative financial instruments purchase and sale agreements, related to third party transactions.

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24. Subsequent events

On January 31st, 2012 the Bank paid in capital in Banco Panamericano S.A., in the amount of R\$ 495,476, with no impact on its proportion of shareholders composition.

On January 31, 2012, the Bank and Banco Panamericano entered into a definitive agreement to purchase 100% of the shares of Brazilian Finance & Real Estate S.A. (BFRE).

On February 8, 2012, the Bank announced the conclusion of the agreement for the acquisition of 100% of the outstanding shares of Celfin Capital (Celfin), operating in Chile, Peru and Colombia. On October 26, 2012, BACEN authorized this acquisition.

On March 29, 2012, Saíra Diamante Empreendimentos Imobiliários S.A. ("Saíra"), Wtorre Empreendimentos Imobiliários S.A. ("Wtorre") and BR Properties S.A. ("BR Properties") approved the transaction involving successive mergers of Saíra and its jointly-controlled investee with Wtorre, One Properties S.A., into BR Properties. After the closing of the operation the Bank held 28% of interest on BR Properties.

On April 30, 2012, BTG Pactual Group completed its primary public offering (IPO), issuing 82,800,000 units at a price of R\$ 31.25 (thirty-one reais and twenty five cents) per unit. In that operation, the Bank issued 248,400,000 shares, representing a capital increase by R\$ 2,070 million and generating cash net of costs of commissions, fees and taxes of R\$ 2,018 million.

On June 14, 2012 the Bank announced the purchase agreement of Bolsa y Renta in Colombia. On December 20, 2012, BACEN authorized this acquisition.

In October 2012, we received a tax assessment totaling R\$1,970 million alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by us was inappropriate. We have filed an appeal of this tax assessment. Based on our analysis of applicable case law, including in recent similar cases, we believe that the tax assessment is without merit and that we will ultimately prevail in its appeal. As a result, we do not expect to incur any losses (other than the costs of the appeal) in connection with this matter, and have not established (and do not expect to establish) any related reserves on our financial statements. In addition to our assessment as to the validity of this tax assessment, in the event that we incur losses in connection with this matter, we believe we are entitled to be indemnified by third parties for such losses. Accordingly, in no event do we expect to incur any material losses in connection with this matter.

On December 20, 2012, our subsidiary BTG Pactual Seguradora S.A. received authorization from SUSEP to offer insurance products in Brazil.

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We issued bonds in (i) September 2012 in the amount of US\$800 million in subordinated notes due 2022 at an interest rate of 5.75% and (ii) September and October 2012 in the total amount of the Colombian Peso equivalent of approximately US\$235 million in senior notes due 2017 at an interest rate of 7.0%.