Banco Votorantim S.A.

Financial statements in IFRS as of December 31, 2012

KPMG Auditores Independentes
February, 2013
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Contents

KPMG Auditores Independentes
R. Dr. Renato Paes de Barros, 33
04530-904 - São Paulo, SP - Brasil
Caixa Postal 2467
01060-970 - São Paulo, SP - Brasil

Central Tel 55 (11) 2183-3000
Fax Nacional 55 (11) 2183-3001
Internacional 55 (11) 2183-3034
Internet www.kpmg.com.br

Independent auditors' report on the consolidated financial statements

To
The Board of Directors and Shareholders of
Banco Votorantim S.A.
São Paulo - SP

We have audited the consolidated financial statements of Banco Votorantim S.A. ("Bank") and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2012 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and a summary of significant accounting practices and other explanatory notes to the financial statements.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the internal controls it deemed necessary to enable the preparation of these financial statements free from 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 carried out in accordance with the Brazilian and International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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.

KPMG Auditores Independentes, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG Auditores Independentes, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco Votorantim S.A. and subsidiaries as of December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Other subjects

Statements of value added

In addition, we have examined the consolidated statements of value added elaborated under the responsibility of the administration of the bank, as of 31 December 2012, whose presentation is being made spontaneously by the bank and as supplementary information to the IFRS, which do not require the presentation of the statements of value added. These statements were subject to the same audit procedures as mentioned above and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements taken as a whole.

São Paulo, February 28, 2013

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Alberto Spilborghs Neto
Accountant CRC 1SP167455/O-0

Banco Votorantim S.A.

Consolidated balance sheets as of December 31, 2012 and 2011

(In thousands of Reais)

	Note	2012	2011
Assets		133,142,379	134,145,459
Cash and cash equivalents	4	1,178,101	5,594,904
Financial assets with resale agreement	5	13,914,873	9,618,225
Financial assets at fair value through profit or loss	6a	12,460,855	10,011,804
Financial assets available for sale	6b	22,928,411	16,045,469
Derivative financial instruments	7	1,979,551	1,676,944
Loans and receivables	8	70,242,288	85,773,460
Dividends receivables		34,705	26,148
Current tax assets	9	666,641	1,122,984
Deferred tax assets	10	4,929,358	2,523,364
Long-term assets held for sale	11	152,556	101,826
Other assets	12	4,486,252	1,469,075
Tangible assets	13	116,387	138,928
Intangible assets	14	52,401	42,328
Total assets		133,142,379	134,145,459

	Note	2012	2011
Liabilities		125,506,356	127,132,047
Financial liabilities at fair value through profit and loss	15	607,437	123,706
Financial liabilities at amortized cost	16	42,812,526	35,366,768
Financial liabilities associated with transferred assets	17	16,170,585	23,484,973
Financial institution deposits	18	2,356,810	2,856,203
Client deposits	19	12,907,634	22,768,436
Loans and onloans	20	10,235,926	11,478,362
Securities issued	21	22,706,385	17,739,264
Derivative financial instruments	7	1,735,250	1,482,004
Subordinated liabilities	22	6,991,211	7,397,310
Provisions	23	1,275,295	337,157
Current tax liabilities	24	299,761	98,576
Deferred tax liabilities	25	543,701	660,049
Legal obligations	26	1,617,768	1,524,350
Other liabilities	27	5,246,067	1,814,889
Total stockholders' equity attributable to the controlling shareholders		7,636,022	7,013,403
Capital stock		7,026,841	5,026,841
Reserves	28b	302,046	1,968,167
Equity assessment adjustments	28d	307,135	18,395
Total stockholders' equity attributable to non-controlling shareholders		1	9
Total liabilities and stockholders' equity		133,142,379	134,145,459

The explanatory notes are constituent parts of the financial statements.

Banco Votorantim S.A.

Consolidated statements of income

Fiscal years ended on December 31, 2012 and 2011

(In thousands of Reais)

	Note	2012	2011
Interest revenues	29	14,467,119	16,568,001
Interest expenses	30	(9,918,548)	(12,649,084)
Financial Margin		4,548,571	3,918,917
Net services and commission fee results	31	(928,352)	(801,893)
Results of financial assets/liabilities at fair value through profit and loss	32	3,988,188	3,446,854
Result of financial assets available for sale		(6,562)	132,644
Results from derivative financial instruments	33	(1,743,549)	(1,328,467)
Other operational results	34	(735,089)	(450,781)
Gross result of financial intermediation		5,123,207	4,917,274
Results of losses due to impairment	35	(5,679,489)	(4,023,487)
Personnel expenses	36	(978,774)	(858,650)
Other administrative expenses	37	(505,087)	(557,548)
Depreciation and amortization expenses	38	(29,443)	(37,202)
Tax expenses	39	(513,361)	(580,268)
Results from sale of non-current asstes held for sale	40	(145,255)	(105,198)
Income before taxes and contributions and profit sharing		(2,728,202)	(1,245,079)
Current income taxes and contributions	41a	(1,289,234)	(112,653)
Deferred income taxes and contributions	41b	2,646,783	1,039,827
Profit sharing		(295,468)	(186,916)
Net income for the fiscal year attributable to the controlling shareholders		(1,666,121)	(504,821)
Participation of non-controlling shareholders		-	-
Net income for the fiscal year		(1,666,121)	(504,821)

The explanatory notes are constituent parts of the financial statements.

Banco Votorantim S.A.

Consolidated statements of comprehensive income

Fiscal years ended on December 31, 2012 and 2011

(In thousands of Reais)

	2012	2011
Net income for the fiscal year	(1,666,121)	(504,821)
Net variance of the fair value of financial assets available for sale	400,683	129,270
Fair value adjustment against stockholders' equity	394,121	261,914
Reclassification of realized income to profit and loss	6,562	(132,644)
Income from financial derivative instruments (hedge)	5,005	(5,005)
Income tax and social contribution on comprehensive income	(116,948)	(52,486)
Total comprehensive income	(1,377,381)	(433,042)

The explanatory notes are constituent parts of the financial statements.

Banco Votorantim S.A.

Consolidated statements of stockholders' equity

Fiscal years ended on December 31, 2012 and 2011

(In thousands of Reais)

	Stockholders' equity attributable to the controlling shareholders								
	Capital stock	**Capital reserves**	**Profit reserves**	**Others**	**Equity assessment adjustments**	**Accumulated Income/(loss)**	**Total**	**Non-controlling participation**	**Total stockholders' equity**
Balances on January 1, 2011	4,026,841	585,104	3,109,921	(93,647)	(53,384)	-	7,574,835	60	7,574,895
Increase / (reduction) of capital stock	1,000,000	-	(1,000,000)	-	-	-	-		-
Constituition / (reversal) of reserves	-	-	(726,858)	-	-	726,857	(1)	(51)	(52)
Revenues associated with funding	-	-	-	93,647	-	(93,647)	-		-
Equity assessment adjustments	-	-	-	-	71,779	-	71,779		71,779
Net income for the fiscal year	-	-	-	-	-	(504,821)	(504,821)		(504,821)
Distribution of dividends	-	-	-	-	-	(128,389)	(128,389)		(128,389)
Balance on December 31, 2011	5,026,841	585,104	1,383,063	-	18,395	-	7,013,403	9	7,013,412
Increase / (reduction) of capital stock	2,000,000	-	-	-	-	-	2,000,000	(6)	1,999,994
Constituition / (reversal) of reserves	-	(283,058)	(1,383,063)	-	-	1,666,121	-	(2)	(2)
Equity assessment adjustments	-	-	-	-	288,740	-	288,740	-	288,740
Net income for the fiscal year	-	-	-	-	-	(1,666,121)	(1,666,121)	-	(1,666,121)
Distribution of dividends	-	-	-	-	-	-	-	-	-
Balance on December 31, 2012	7,026,841	302,046	-	-	307,135	-	7,636,022	1	7,636,023

The explanatory notes are constituent parts of the financial statements.

Banco Votorantim S.A.

Consolidated statements of cash flows

Fiscal years ended on December 31, 2012 and 2011

(In thousands of Reais)

	2012	2011
Cash flows from operating activities		
Net income for the fiscal year	(1,666,121)	(504,821)
Adjustments to net income:	6,998,928	4,690,036
Depreciation/amortization	29,443	37,202
Provision for losses due to impairment	5,932,196	4,211,719
Legal provisions and obligations	1,037,289	347,468
Revenues associated with funding	-	93,647
Net (increase) decrease of operating assets	(9,069,645)	(13,617,444)
Financial assets with resale agreement	(4,296,648)	2,638,148
Financial assets at fair value through P&L	(2,449,051)	3,099,556
Financial assets available for sale	(6,594,201)	(7,249,211)
Derivative financial instruments	(302,606)	112,481
Loans and receivables	9,756,760	(11,570,871)
Dividends receivable	(8,557)	(26,148)
Current tax assets	298,560	(337,374)
Deferred tax assets	(2,405,994)	(482,683)
Non-current assets held for sale	(50,730)	(14,496)
Other assets	(3,017,178)	141,375
Equity assessment adjustments	-	71,779
Net increase (decrease) of operating liabilities	(7,224,003)	6,978,137
Financial liabilities at fair value through profit and loss	483,731	(2,500,271)
Financial liabilities at amortized cost	7,445,758	1,368,327
Financial liabilities associated with transferred assets	(7,314,388)	8,148,229
Financial institution deposits	(499,393)	2,129,937
Client deposits	(9,860,801)	(103,254)
Loans and onloans	(1,242,436)	223,882
Derivative financial instruments	253,246	(412,617)
Current tax liabilities	201,185	(47,183)
Deferred tax liabilities	(116,348)	(504,657)
Legal provisions and obligations	(5,733)	-
Other liabilities	3,431,176	(1,324,256)
Cash generated / (used) by operating activities	(10,960,841)	(2,454,092)
Cash flows from financing activities		
Capital increase	2,000,000	-
Dividends paid	-	(270,629)
Increase or decrease of participation of non-controllers	(8)	(51)
Instruments issued	4,967,121	6,392,735
Subordinated liabilities	(406,100)	493,048
Cash generated / (used) by financing activities	6,561,013	6,615,103
Cash flows from investment activities		
Tangible assets	(1,902)	(41,758)
Intangible assets	(15,073)	(24,330)
Cash general / (used) by investment activities	(16,975)	(66,088)
Net variance of cash and cash equivalents	(4,416,803)	4,094,923
Cash and cash equivalents at the beginning of the fiscal year	5,594,904	1,499,981
Cash and cash equivalents at the end of the fiscal year	1,178,101	5,594,904
Increase / (reduction) of cash and cash equivalents	(4,416,803)	4,094,923

The explanatory notes are constituent parts of the financial statements.

Banco Votorantim S.A.

Consolidated statements of value added

Fiscal years ended on December 31, 2012 and 2011

(In thousands of Reais)

	2012	2011
Revenues	(701,537)	788,589
Interest revenues	14,467,119	16,568,001
Interest expenses	(9,918,548)	(12,649,084)
Results from services and commission fees	(928,352)	(801,893)
Results of losses due to impairment	(5,679,489)	(4,023,487)
Other operating revenues / (expenses)	1,357,733	1,695,052
Items acquired from third parties	(369,525)	(423,944)
Materials, energy and others	(7,528)	(9,836)
Third party services	(13,385)	(17,274)
Others	(348,612)	(396,834)
Communications	(80,454)	(101,454)
Maintenance and preservation of assets	(14,201)	(17,183)
Data processing	(169,204)	(152,250)
Promotions and public relations	(5,711)	(16,222)
Publications	(1,220)	(1,000)
Advertising and publicity	(3,350)	(10,211)
Financial system services	(2,227)	(692)
Specialized technical services	(563)	(27)
Transportation	(15,975)	(24,151)
Others	(55,707)	(73,644)
Gross value added	(1,071,062)	364,645
Amortization/depreciation expenses	(29,443)	(37,202)
Net value added produced by the entity	(1,100,505)	327,443
Value added to be distributed	(1,100,505)	327,443
Value added distributed	(1,100,505)	327,443
Personnel	1,144,084	911,308
Salaries and professional fees	640,862	529,854
Profit sharing	295,468	186,916
Benefits and training	152,212	144,375
FGTS (Unemployment Compensation Fund)	55,542	50,163
Taxes, tariffs and contributions	(714,029)	(212,648)
In Brazil	(714,029)	(212,648)
INSS (National Social Security Institute) on salaries	130,158	134,258
Tax Expenses (except income tax and social contribution)	513,361	580,268
Income tax / social contribution	(1,357,548)	(927,174)
Remuneration of third party capital	135,561	133,604
Rent	135,561	133,604
Remuneration of own capital	(1,666,121)	(504,821)
Dividends/ interest on equity	-	128,389
Retained (Loss) / Earnings	(1,666,121)	(633,210)

The explanatory notes are constituent parts of the financial statements.

Explanatory notes to the consolidated financial statements

(In thousands of Reais)

1 Operating context

Banco Votorantim is a non-public stock company that, operating in the form of a multiple bank, carries out banking activities in the authorized categories, by means of its commercial, investments, financing and foreign exchange transaction portfolios. Headquartered in Brazil, Banco Votorantim is located at Avenida das Nações Unidas, No. 14171, São Paulo, State of São Paulo.

Banco Votorantim and its controlled subsidiaries BV Financeira S.A. - Crédito, Financiamento e Investimento, Votorantim Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda., Votorantim Corretora de Títulos e Valores Mobiliários Ltda. and BV Leasing – Arrendamento Mercantil S.A. (the Conglomerate) also operate in a number of other categories, featuring among them activities of consumer credit, financial leasing and third party assets management.

The transactions are conducted in an integrated form in the financial market, including as with regards to risk management, where certain transactions have the co-participation or intermediation of associated institutions. The benefits of the services provided among these institutions and the costs of the operating and administrative structure are absorbed according to the practicability and reasonability of them being attributed jointly or individually.

2 Basis for the preparation of the financial statements

a. Representation of conformity

The consolidated financial statements have been prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

b. Basis for recognition and measurement

The regular acquisitions and sales of financial instruments, including derivative financial instruments, are recognized on the date of trading – the date when the Conglomerate commits to acquiring or selling the asset.

The financial instruments are derecognized when the rights of receiving cash flows from the investments have matured or have been transferred; in the latter case, provided that the Conglomerate has transferred significantly all the risks and all the benefits of ownership of the financial instrument. The financial assets available for sale and the financial assets measured by the fair value through profit or loss are subsequently booked at fair value. The loans and receivables are booked by the amortized cost, using the effective interest method.

Gains or losses deriving from variances in the fair value of financial assets measured at fair value through profit or loss are shown in the statement of income in the results of financial assets at fair value through profit or loss in the fiscal year in which they occur.

When the instruments classified as available for sale are sold or incur losses due to impairment, the accumulated adjustments of the fair value, recognized in the stockholders' equity, are included in the statement of income as results of financial assets available for sale.

The fair values of financial assets with public quotes are based on the current purchase and sale prices. If the market for a financial asset (and for instruments not registered in a Security Exchange) is not active, the Conglomerate establishes the fair value using valuation techniques. These techniques include recent transactions contracted with third parties, reference to other instruments that are substantially similar, analysis of discounted cash flows and the pricing models of options that make the most use possible of information generated by the market and that rely on the least possible information generated by the Management.

The Conglomerate regularly assesses if there is objective evidence that a financial asset or a group of financial assets show(s) signs of impairment to its recoverable value. For the case of financial assets classified as available for sale, a significant or prolonged drop of the fair value of the instrument, to below its cost value, is considered to be a sign that the instruments are impaired. If any one of these evidences exists for the financial assets available for sale, the cumulative loss, measured as being the difference between cost of acquisition and current fair value, is removed from the stockholders' equity and recognized in the statement of income.

c. Functional currency and currency of presentation

These financial statements are presented in Reais, which are the functional currency of the Company.

d. Accounting estimates and judgment

The preparation of financial statements requires Management to use judgment to determine and record accounting estimates. The settlement of transactions involving such estimates can result in amounts that are different from those estimated, due to inaccuracies that are inherent to the process of determination. Significant items that are subject to such estimates and assumptions include the valuation of financial assets and liabilities and derivative financial instruments at their fair value, analysis of credit risk for the determination of the provisions for losses due to impairment, as well as analysis of the contingent liabilities. Management revises the estimates and assumptions regularly.

The principal amounts recognized in the financial statements by means of estimates are included in the following explanatory notes:

- No. 6 – Financial assets
- No. 7 – Derivative financial instruments
- No. 8 – Loans and receivables
- No. 15 – Financial liabilities at fair value through profit or loss
- No. 23 – Provisions

e. Basis for consolidation

The companies that are considered to be subsidiaries are those over which the Company exercises control, represented by the power of managing their financial and operating policies to obtain benefits from their activities. The subsidiaries are consolidated by the integrated method, from the moment when the Company assumes control over their activities up to the moment when such control ceases.

The consolidated financial statements comprise the transactions of Banco Votorantim (controller) and of the following companies:

	Percentage	
	2012	**2011**
Controlled subsidiaries in Brazil (direct participation)		
Votorantim CTVM Ltda.	99.99	99.98
Votorantim Asset Management DTVM Ltda.	99.99	99.99
BV Financeira S.A. Crédito, Financiamento e Investimento	100.00	100.00
BV Leasing Arrendamento Mercantil S.A.	99.99	99.99
BVIP - BV Investimentos e Participações S.A.	100.00	100.00
BVIA - BV Inv. Alternativos e Gestão de Recursos S.A.	100.00	100.00
Votorantim Corretora de Seguros S.A. (a)	100.00	-
Controlled foreign subsidiaries (direct participation)		
Votorantim Bank Limited	100.00	100.00
Banco Votorantim Securities Inc.	100.00	100.00
Votorantim Securities (UK) Limited	100.00	100.00

The consolidated financial statements also show the investment funds in which Banco Votorantim and its controlled subsidiaries hold the majority of the risks and benefits of the activities of such funds, which are listed below:

	Percentage of participation in the total units	
	2012	**2011**
Fundo Invest. Nióbio I Renda fixa – (b)	100.00	100.00
BV Financeira FIDC V - Not standardized	52.09	29.29
Votorantim G&K FIP	-	100.00
BVIA Fundo Invest. Participações	90.03	100.00
Fundo de Invest. Sedna Ref. DI	-	100.00

(a) On January 31, 2012 Banco Votorantim acquired from BV Participações S.A. a total of 200,000 common shares of Votorantim Corretora de Seguros S.A. for the amount of R$ 109,604.

(b) Banco Votorantim and its subsidiary BV Financeira indirectly hold shares through Fundo Invest. Nióbio I Renda fixa [fixed income fund] which as of July 25, 2011, absorbed 100% of the subordinated shares of receivables funds shown in the table below:

	Percentage of indirect participation in the total units	
	2012	**2011**
BV Financeira FIDC I	48.65	59.22
BV Financeira FIDC II	14.63	24.51
BV Financeira FIDC III	100.00	24.31
BV Financeira FIDC IV	100.00	22.48
BV Financeira FIDC VI	29.93	25.80

f. Investments in affiliates

An affiliate is an entity over which the Bank has significant influence and which does not appear as a controlled subsidiary nor as participation in an enterprise under common control (joint venture). Significant influence is the power of participating in the decisions concerning the financial and operating policies of the invested entity, without controlling such policies on either an individual or joint basis. On December 31, 2012 and 2011, the Conglomerate had no investments in affiliates.

g. Transactions elimination in consolidation

Intragroup balances and transactions, and any revenues or expenses deriving from intragroup transactions, are eliminated when preparing the consolidated financial statements. Unrealized earnings deriving from transactions with invested companies, recorded by the equity accounting system, are eliminated against the investment in proportion to the participation of the Conglomerate in the invested company. Unrealized losses are eliminated in the same way as unrealized earnings, but only to the extent that there is no evidence of loss due to impairment.

The equity values of the entities shown in the tables below (h, i and j) are consubstantiated on the standards issued by the Central Bank of Brazil (COSIF – local acronym for Code of Accounts for Institutions of the National Financial System). The adjustment relative to the differences of accounting practices between COSIF and IFRS are recorded in the balances after the consolidation and are presented in these financial statements.

h. Equity position of the controlled subsidiaries in Brazil

December 31, 2012

	Votorantim CTVM	Votorantim DTVM	BV Financeira	BV Leasing	BVIP	BVIA	Votorantim Corretora de Seguros
Current assets	370,637	67,763	18,141,480	8,581,885	36	112	106,378
Long-term assets	22,977	77,189	34,410,564	21,450,621	-	-	109,934
Total assets	393,614	144,952	52,552,044	30,032,506	36	112	216,312
Current liabilities	111,978	51,587	47,007,787	1,991,537	-	-	52,941
Long-term liabilities	24,674	327	2,417,569	26,719,228	-	-	-
Stockholders' equity	256,962	93,038	3,126,688	1,321,741	36	112	163,371
Total liabilities	393,614	144,952	52,552,044	30,032,506	36	112	216,312

December 31, 2011

	Votorantim CTVM	Votorantim DTVM	BV Financeira	BV Leasing	BVIP	BVIA
Current assets	348,898	26,078	17,405,110	18,407,460	109	172
Long-term assets	18,607	91,211	26,102,932	10,518,298	-	-
Total assets	367,505	117,289	43,508,042	28,925,758	109	172
Current liabilities	81,601	39,693	24,924,916	3,252,967	-	-
Long-term liabilities	30,597	-	17,882,296	24,376,936	-	-
Stockholders' equity	255,307	77,596	700,830	1,295,855	109	172
Total liabilities	367,505	117,289	43,508,042	28,925,758	109	172

i. Equity position of the controlled foreign subsidiaries

	2012			2011		
	VBL	BV Securities	BV Securities UK	VBL	BV Securities	BV Securities UK
Current assets	46,005	16,098	12,819	113,516	11,107	11,667
Long-term assets	1,550	426	-	1,845	442	-
Total assets	47,555	16,524	12,819	115,361	11,549	11,667
Current liabilities	7,191	535	-	78,771	530	-
Long-term liabilities	-	-	-	-	-	-
Stockholders' equity	40,364	15,989	12,819	36,590	11,019	11,667
Total liabilities	47,555	16,524	12,819	115,361	11,549	11,667

j. Equity positions of the investment funds

December 31, 2012

	FI Nióbio I Renda fixa – (a)	BV Financeira FIDC V	BVIA FIP
Current assets	1,788,153	664,536	632,415
Long-term assets	-	-	-
Total assets	1,788,153	664,536	632,415
Current liabilities	680	366	50,104
Long-term liabilities	-	-	-
Stockholders' equity	1,787,473	664,170	582,311
Total liabilities	1,788,153	664,536	632,415

December 31, 2011

	FI Nióbio I Renda fixa – (a)	BV Financeira FIDC V	Votorantim G&K FIP	BVIA FIP	FI Sedna Ref. DI	Other Funds
Current assets	1,528,534	1,057,126	55,663	470,997	43,425	289,325
Long-term assets	-	-	-	-	-	-
Total assets	1,528,534	1,057,126	55,663	470,997	43,425	289,325
Current liabilities	372	3,166	83	70	4	-
Long-term liabilities	-	-	-	-	-	-
Stockholders' equity	1,528,162	1,053,960	55,580	470,927	43,421	289,325
Total liabilities	1,528,534	1,057,126	55,663	470,997	43,425	289,325

(a) Banco Votorantim and its BV Financeira subsidiary hold indirectly, through Nióbio I Renda fixa investment fund which as of July 25, 2011, absorbed 100% of the subordinated shares of the Receivables Funds shown in the table below:

December 31, 2012

	BV Financeira FIDC I	BV Financeira FIDC II	BV Financeira FIDC III	BV Financeira FIDC IV	BV Financeira FIDC VI
Current assets	269,400	894,840	105,670	439,028	3,048,118
Long-term assets	-	-	-	-	-
Total assets	269,400	894,840	105,670	439,028	3,048,118
Current liabilities	1,012	586	163	420	1,094
Long-term liabilities	-	-	-	-	-
Stockholders' equity	268,388	894,254	105,507	438,608	3,047,024
Total liabilities	269,400	894,840	105,670	439,028	3,048,118

December 31, 2011

	BV Financeira FIDC I	BV Financeira FIDC II	BV Financeira FIDC III	BV Financeira FIDC IV	BV Financeira FIDC VI
Current assets	459,053	920,419	693,825	1,765,633	2,726,672
Long-term assets	-	-	-	-	-
Total assets	459,053	920,419	693,825	1,765,633	2,726,672
Current liabilities	6,610	3,142	2,905	2,508	2,640
Long-term liabilities	-	-	-	-	-
Stockholders' equity	452,443	917,277	690,920	1,763,125	2,724,032
Total liabilities	459,053	920,419	693,825	1,765,633	2,726,672

k. Foreign currency

Monetary assets and liabilities denominated and assessed in foreign currencies on the date of presentation are reconverted to the functional currency at the exchange rate assessed on that date.

Foreign exchange gain or loss in monetary items is the difference between the amortized cost of the functional currency at the beginning of the period, adjusted for interest and effective payments during the period, and the amortized cost in foreign currency at the exchange rate at the end of the period of presentation. On the base date the assets and liabilities of the subsidiary and of the foreign branch are converted to the currency of presentation adopted by the company at the exchange rate effective on balance sheet date.

l. Offsetting of financial instruments

Financial assets and liabilities are only offset and the net amount reported in the balance sheet when there is a legally applicable right to offset the amounts recognized and there is an intention of settling them on a net basis, or of realizing the asset and settling the liability simultaneously.

m. Rules and interpretations that became effective in the period ended December 31, 2012

Amendments to IFRS 7 – Financial Instruments: Disclosures – an amendment to this pronouncement was issued in October 2010 requiring additional disclosures of transfers of assets with remaining risks.

Amendments to IAS 12 – Income taxes – In December 2010 an alteration was issued in this pronouncement inserting an exception in the measuring of the deferred tax assets and liabilities, relative to investments in properties measured by the fair value. This altered pronouncement has not led to any impact on the consolidated financial statements.

n. Rules and interpretations that will become effective after December 31, 2012

The pronouncement below will become effective for periods after the date of these consolidated financial statements and were not adopted in advance:

Amendments to IAS 32 – Financial Instruments: Presentation – This alteration was issued to clarify the requirements of offsetting financial instruments in the balance aheet. This change comes into effect as of January 1, 2014. Possible impacts of the adoption of this amendment are being analyzed.

Amendments to IFRS 7 - Financial Instruments: Disclosures – In December 2011 another alteration of the pronouncement was issued requiring added disclosure on the "offsetting" process. These requirements come into effect for fiscal years beginning after January 1, 2013. Possible impacts of the adoption of these amendments are being analyzed.

IFRS 9 – Financial Instruments – the pronouncement is the first step in the process of replacing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and is expected to affect accounting recognition of the conglomerate's financial instruments. It is not effective until January 1, 2015, and its early adoption is permitted by IASB, but forbidden by the Central Bank of Brazil.

Amendments to IAS 19 – Employee Benefits – This alteration excludes the alternative of use of the corridor method and requires that all activity be booked in other comprehensive income. This is effective as of January 1, 2013. There will be no relevant impacts on the conglomerate deriving from adoption of this pronouncement.

IFRS 10 – Consolidated Financial Statements – The pronouncement alters the current principle, identifying the concept of control as a determinant factor for an entity to be consolidated. It is not effective until January 1, 2013. Possible impacts of the adoption of the pronouncement are being analyzed.

IFRS 11 – Joint Arrangements **–** The pronouncement takes a different approach to the analysis of "Joint Arrangements" with more focus on rights and obligations under agreements than on legal formalities. IFRS 11 divides the Joint Arrangements into two forms: Joint Operations and Joint Ventures, according to the rights and obligations of the parties. For investments in Joint Ventures, proportionate consolidation is no longer permitted. It is not effective until January 1, 2013. Possible impacts of the adoption of the pronouncement are being analyzed.

IFRS 12 – Disclosures of Interests in Other Entities **–** The announcement includes new disclosure requirements for all forms of investment in other entities, such as Joint Arrangements, associations and specific-purpose companies. It is not effective until January 1, 2013. Possible impacts of the adoption of the pronouncement are being analyzed.

IFRS 13 – Fair Value Measurement **–** The pronouncement aims for closer alignment between IFRS and US GAAP, with more consistency and less complexity for disclosures, using precise definitions of fair value. It is not effective until January 1, 2013. Possible impacts of the adoption of the pronouncement are being analyzed.

Annual Improvements cycle (2009-2011) – Annually the IASB makes minor alterations in a series of pronouncements, with the purpose of clarifying the current standards and avoiding double construal. In this cycle there was revision of the IFRS 1 – First-time adoption of IFRS, IAS 1 – Presentation of Financial Statements, IAS 16 – Property, Plant and Equipment, IAS 32 – Financial Instruments: Presentation and IAS 34 – Interim Financial Reporting. The alterations are not effective prior to January 1, 2013. We do not expect any relevant impacts.

o. Change in the accounting policy

Deferral

In the second half of 2012, based on accrual assumptions and matching expenses with revenues assessed on individual bases of the credit agreements, it was necessary to change the accounting criteria applied to the costs associated with the production of loans and financing, incurred after the origination of the transaction, to recognize them in expenses at the time when they are paid and the amounts of the taxes credits deriving from temporary differences by the net amount of its deferred tax obligations.

The change in the accounting policy affected the balance sheets of the company as well as the statements of income, the statements of stockholders' equity, the statements of changes in financial position and the statements of added value referring to the periods presented.

Aiming at maintaining the comparability of the financial statements in compliance with IAS 8 we are presenting at this moment the financial statements for 2011 with the adjustments presented below:

	Previous disclosure	Adjustments	Adjusted balance
December 31, 2011			
Assets			
Loans and receivables	86,148,678	(375,218)	85,773,460
Current tax assets	965,201	157,783	1,122,984
Impact on total assets	134,362,894	(217,435)	134,145,459
Stockholders' equity			
Reserves	2,185,602	(217,435)	1,968,167
Impact on stockholders' equity	7,230,847	(217,435)	7,013,412
Result			
Other operational results	(457,133)	6,352	(450,781)
Current income taxes and contributions	(119,934)	7,281	(112,653)
Impact on the results	(518,454)	13,633	(504,821)

Tax Offsets

Reclassifications were effected on the balances for December 31, 2011 in the Balance Sheet aiming at enabling comparability of the financial statements. The Conglomerate began to record the amounts of the tax credits deriving from temporary differences by the net amount of its deferred tax obligations. The principal reclassifications were:

	Previous disclosure	Reclassification	Reclassified balance
Deferred tax assets	2,900,047	(376,683)	2,523,364
Deferred tax liabilities	1,036,732	(376,683)	660,049

p. Authorization of the financial statements

The issuance of the financial statements was authorized by the Executive Board on February 28, 2013.

3 Principal accounting practices

a. Cash and cash equivalents

Cash and cash equivalents are represented by cash, short-term investments in interbank deposits, in foreign currencies and in committed transactions – own resources, maturing within 90 days.

b. Financial instruments with repurchase/resale commitment

Instruments sold with an agreement for repurchase on a specific future date are not derecognized the balance sheet, since the Conglomerate retains substantially all the risks and benefits of possession. The corresponding cash received is recognized in the balance sheet as an obligation of return, including interest appropriated as a liability, reflecting the effective substance of the transaction as a debt of the Conglomerate. The difference between the selling price and the repurchasing price is treated as interest expense and appropriated throughout the duration of the agreement using the effective interest rate.

Inversely, for instruments acquired with an agreement of resale on a specific future date, the amount paid, including appropriated interest, is recorded in the balance sheet as financial assets with resale agreement, thus reflecting the economic substance of the transaction. The difference between the purchase price and the resale price is recorded in "interest revenue" and is appropriated throughout the term of the agreement using the effective interest rate.

c. Financial instruments

Under IAS 39, all financial assets and liabilities, including derivatives must be recognized on the Balance Sheet and measured depending on the category in which the instrument has been classified.

Financial assets and liabilities may be classified in the following categories:

- Financial assets and liabilities at fair value through profit or loss - held for trading;
- Financial assets and liabilities at fair value through profit or loss – designated at fair value;
- Financial assets and liabilities at fair value through profit or loss - derivatives;
- Financial assets available for sale;
- Financial assets held to maturity;
- Loans and receivables;
- Financial liabilities at amortized cost.

Classification depends on the purpose for which financial assets were acquired or financial liabilities were assumed. The Management determines the classification of its financial instruments on initial recognition.

Banco Votorantim S.A management classifies, in its consolidated financial statements, financial instruments in categories that most appropriately reflect the nature and characteristics of these instruments.

Regular purchases and sales of financial assets are recognized and / or derecognized on trade date.

Financial assets are reversed / derecognized when cash flow receivables rights expire or when Banco Votorantim S.A. transfers substantially all risks and rewards of ownership, thus justifying derecognition (IAS 39). Therefore, if risks and benefits have not been substantially transferred, Banco Votorantim S.A. will reassess control and determine whether active involvement related to any retained control will prevent it making the derecognition. Financial liabilities are derecognized on liquidation or extinguishing.

i. **Financial assets at fair value through profit or loss - held for trading -** assets acquired and incurred mainly with the intention of being traded in the short term or when part of a portfolio of financial instruments that are managed as a whole and for which there is evidence of a recent history of short-term sales. Derivative financial instruments are classified as held for trading unless designated and effective as hedge accounting instruments. Banco Votorantim S.A chose to disclose the derivatives on a separate line in the consolidated balance sheet (item (iii)).

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or classified as such at the moment of initial recognition.

The financial assets are designated at fair value through profit or loss if management monitors such investments and takes purchase and sale decisions based on their fair values according to the documented risk management and the investments strategy of the conglomerate. After their initial recognition, the financial assets with pre-fixed or post-fixed remuneration have their amortized cost calculated using the effective interest method and measured by the fair value. The remuneration calculated by the amortized costs of the financial assets recognized initially is presented in the statement of income as Interest revenue.

The remuneration of financial assets held for trading is considered applicable to Banco Votorantim S.A.'s trading transactions and is presented in aggregate form for all the changes of fair value of assets held for trading in the results of financial assets held at fair value through profit or loss.

The changes of fair value are recognized in the results for the period shown in the statement of income as results of financial assets held at fair value through profit or loss.

ii. **Financial assets at fair value through profit or loss - designated at fair value -** Assets designated at fair value through profit or loss on initial recognition (fair value option). This designation may not be subsequently altered. Under IAS 39, the fair value option may only be used if it reduces or eliminates accounting inconsistencies in the result or if the financial assets comprise a portfolio for which risk is managed and reported to Management based on its fair value, or if these assets consist of debt instruments and embedded derivatives that must be separated.

Banco Votorantim S.A did not have transactions in this class to report in its consolidated financial statements for the year ended on December 31, 2012 and 2011.

iii. **Financial assets at fair value through profit or loss – derivative -** Derivative financial instruments that do not fulfill the criteria for hedging have their adjustments to fair value recorded directly in the results for the period and are shown in the statement of income as results of derivative financial instruments.

Financial instruments that are combined with other financial instruments, whether derivative or not, are treated as distinct financial instruments and are recorded considering the economic characteristics and the risks directly related to those of the principal contract.

Embedded derivatives are segregated from their principal contracts and recorded individually, if the economic characteristics and risks of the principal contract and of the embedded derivative are not intrinsically related; or if an individual instrument with the same conditions as the embedded derivative fulfills the definition of a derivative.

iv. **Financial assets available for sale –** Financial assets available for sale are financial assets that are not classified under any of the previous categories. After the initial recognition, the financial assets with pre-fixed or post-fixed remuneration are measured by the amortized cost using the effective interest method and measured at fair value. Changes in their fair value that are not losses due to impairment are recognized net of tax effects in stockholders' equity as equity valuation adjustments. When an investment is derecognized, the result that is accumulated in stockholders' equity is transferred to the results for the period.

v. **Financial assets held to maturity –** If the conglomerate has the intention and the capacity to hold financial assets to maturity, such assets are classified as held to maturity. After their initial recognition, the financial assets with pre-fixed or post-fixed remuneration are measured by amortized cost through the effective interest method and presented in the statement of income as interest revenue, after deduction of any loss due to impairment.

Banco Votorantim S.A. did not have transactions in this class to report in its consolidated financial statements for the year ended on December 31, 2012 and 2011.

vi. **Loans and receivables –** Loans and receivables are financial assets with fixed or calculable payments that are not quoted in the active market. These assets are initially recognized at fair value, with addition of any attributable transaction costs. After initial recognition loans and receivables are measured by the amortized cost by using the effective interest method, after deduction of any loss due to impairment. The earnings calculated by the amortized cost are presented in the statement of income as interest revenue. Loans and receivables that are subject-matter of hedging for derivative financial instruments are appraised by their fair value, using a consistent and verifiable criterion.

The changes in their fair value are recognized in the profit or loss for the period and are shown in the statement of income as result of financial assets at fair value through profit or loss.

d. Derecognition of financial instruments

i. Financial assets

A financial asset (or an applicable portion of a financial asset or a group of similar assets) is derecognized when:

- The right to receive the cash flow of the asset has matured; or
- The conglomerate transferred the right to receive the cash flow of the asset or assumed the obligation of paying the cash flow received, for its total amount, without material delay, to a third party due to a transfer agreement and if:
- The conglomerate has transferred substantially all of the risks and benefits of the asset; or
- The conglomerate has not transferred substantially or retained substantially all of the risks and benefits of the asset, but has transferred control over the asset.

Loans and receivables that are more than 360 days overdue are written off against the provision for losses due to impairment, except when there is any expectation of recovery.

ii. Financial liabilities

A financial liability is derecognized when the obligation relative to the liability is eliminated, cancelled, matured or settled. When an existing financial liability is substituted by another one of the same creditor on substantially different terms, or the terms of the existing liability are substantially modified, the change or modification is treated as a write-off of the original liability and recognition of a new liability, and the difference in the carrying amount is recognized in profit or loss. On December 31, 2012 and 2011, the financial liabilities did not incur any significant substitutions.

e. Hedge accounting

The conglomerate maintains derivative instruments for financial hedging to protect its exposures to foreign currency and interest rate risks.

At the moment of initial designation of the hedge, the conglomerate formally documents the relationship between the hedge instruments and the items that are subject-matter of hedging, including the objectives for management of risks and the strategy for conduction of the hedging transaction, together with the methods that will be used to assess the effectiveness of the hedge relationship. The conglomerate conducts an assessment, both at the beginning of the hedge relationship and continually, ensuring that the hedging instruments is highly effective in the variances of the fair value of the relevant hedging items during the periods for which the hedge is designated, and if the actual results of the hedge are within a range of 80-125 percent.

For the purpose items that ceased to be part of the hedge program and remain recorded in the balance sheet, the fair value adjustment is incorporated with cost and is booked prospectively by the amortized cost, using the effective interest rate method.

Derivative financial instruments considered as instruments for protection (hedging) are classified according to their nature in one of the following categories:

Fair value hedge – The derivative financial instruments classified in this category, as well as an item that is subject-matter of hedging, have their adjustments to fair value recorded as a balancing entry in the results for the period and shown in the statement of income as results of derivative financial instruments; and

Cash flow hedge - The derivative financial instruments classified in this category have their adjustments to fair value recognized in stockholders’ equity as equity valuation adjustments, net of tax effects.

f. Determination of the fair value

The fair value of the financial instruments with public quotes is based on the current market prices.

For financial assets and liabilities that have no active market, the conglomerate establishes the fair value using valuation techniques. These techniques are established with observance of consistent and verifiable criteria and can include:

- Comparison with recent transactions contracted with third parties;
- Reference to other instruments that are substantially similar;
- Analysis of discounted cash flows; and
- Conventional and recognized pricing models.

The principal additional information on the assumptions used in assessing the fair value is disclosed in the specific notes of the relevant asset or liability.

g. Provision for losses due to impairment

A financial asset not measured by the fair value through profit or loss is appraised periodically to assess if there is objective evidence that there has been loss due to impairment. An asset is impaired if the objective evidence shows that an event of loss occurred after initial recognition of the asset, and that the event of loss had a negative effect on the projected future cash flows that can be estimated in a reliable way.

The measurement of the recoverable value is applicable to the following financial assets that are present in the Balance Sheet, whether attributed to the Wholesale segment or to the Retail segment:

- Financial assets with agreement of resale;
- Financial assets available for sale; and
- Loans and receivables.

In addition to the abovementioned assets, one also takes into account all the items not included in the balance sheet that show credit risks for the entity, such as corporate/personal guarantees and other guarantees pledged.

The procedures that are applicable for the measurement of the loss of recoverable value consider the phases of the life cycle of the financial asset, which are: origination / acquisition of financial assets, the occurrence of objective evidences of impairment, renegotiation of a financial asset and a write-off.

Upon the origination or acquisition of financial assets, the Conglomerate does not recognize any reduction of the recoverable value of the asset, and also does not consider for accounting purposes any estimated expected losses as a result of future and uncertain events, irrespective of their probability.

The occurrence of objective evidences of loss of recoverable value indicates possible problems for the recovery of a financial asset, or of a group of financial assets. According to the internal policies of the Conglomerate, the following facts are considered by the institution as being objective evidence of loss of recoverable value:

- Non-payment;
- Delay of payment;
- Restructuring of the amount owed on conditions that the Conglomerate would not consider in other transactions;
- Indications that the debtor or issuer will enter a process of bankruptcy;
- The discontinuity of an active market for an instrument.

The conglomerate first assesses if there is objective evidence of loss in the recoverable value of individually significant assets or collectively for mass-oriented assets.

For this purpose, the conglomerate's Credit Risk area considers as individually significant assets those assets whose nominal value is equal to or greater than the individually significant reference value (value corresponding to the application of a percentage on the Reference Equity). These transactions undergo periodic valuations (agreement by agreement) concerning the payment capability of the borrower or of the economic group of the borrower, the quality of the guarantees offered and fulfillment with all of the conditions negotiated contractually.

Any transactions that do not qualify at the level defined as individually significant assets will be classified as mass-oriented transactions and will be valuations by the Credit Risk area on a group basis.

If an individually significant asset shows one or more objective evidence of loss, a provision is accrued for the difference between the carrying amount of the asset and the estimated present value of the cash flows.

The level of provisions for reduction to impaired value of the individually significant balances, defined as being material, is revised at least on a quarterly basis, and more regularly when circumstances thus require. This normally includes a reassessment of the applicability of execution of guarantees held and advanced receipts.

When assessing the loss due to impairment in a mass-oriented form, the conglomerate uses an internal assessment system that considers historical trends of the probability of default, of the period for recovery and of the amounts of loss incurred, adjusted to reflect the judgment of Management.

The portfolio of mass-oriented transactions is divided so as to identify groups with homogeneous levels at the parameters observe of probability of default and of losses attributed to the default and stability of such parameters in a given historical period. Each one of those groups shows distinct level of such parameters. The formation of homogenous groups is oriented by criteria such as product, category and timeframe.

In these cases, measurement of the provision for losses is made based on statistical methods that take into consideration the Loss, given the Default (calculated based on historical data of losses for cases where the evidences of loss were identified).

The provisions for reduction to impaired value are only reduced when there are reasonable and objective evidences of favorable alterations in the estimates of loss that had been previously established.

The guarantees pledged are also subject to losses. Upon the appearance of objective evidence of loss due to impairment of the portfolio of guarantees pledged, the Conglomerate recognizes the guarantee as a financial liability at fair value. In this case, when representing a transaction covenanted according to market parameters, the fair value is equal to the premium paid by the counterparty. At the end of each reporting period, these financial guarantees are assessed as to the possibility of their being honored by the Conglomerate and classified as probable, possible or remote. For each one of these classifications a specific accounting treatment is applied.

For the case of financial guarantees classified as probable, the present value of the expenditure required to settle the present obligation of the institution is recognized as a liability. For those classified as possible, the present value of the expenditure required to settle the obligation is disclosed in explanatory notes. For those guarantees classified as remotes, no additional procedure is carried out by the entity. On December 31, 2012 and 2011, no probable losses were identified for financial guarantees.

The reduction of the recoverable value of a financial asset, measured by the amortized cost, calculated based on the difference between the carrying amount and the present value of estimated future cash flows is recognized in profit or loss and shown in the statement of income as results of losses due to impairment, with the balancing entry in a provision account. When a subsequent event shows reversal of the loss of value, the reduction in the loss of value is reversed and recorded in profit or loss.

Whenever possible, the Conglomerate seeks to restructure debts instead of taking possession of the guarantee. This can involve an extension of the term for payment and an agreement on the new conditions of the loan. Management conducts continual revision of the renegotiated loans to ensure that all the criteria are fulfilled and that future payments will occur. The loans continue to be subject to individual or collective assessment of reduction due to impairment, calculated by using the effective original rate of the loan.

h. Assignment of financial assets

When applying the accounting practices to assigned financial assets, the Conglomerate has considered the degree of transfer of the risks and benefits of the transferred assets to another entity:

- When the Conglomerate has transferred financial assets to another entity, but did not substantially transfer all the risks and benefits related to the transferred assets, the assets remain recognized in the balance sheet of the Conglomerate.

- When the Conglomerate transfers substantially all the risks and benefits related to the transferred assets to an entity that is not controlled, the assets are derecognized the balance sheet of the Conglomerate.

- When the Conglomerate does not transfer or retain substantially all of the risks and benefits related to transferred financial assets, and retains control of the transferred assets, the Conglomerate continues to recognize the transferred asset to the extent of its continuity in the involvement of the transferred financial asset.

In the course of its activities, the Conglomerate carries out transactions that result in the transfer of financial assets to third parties or to Funds for Investment in Credit Rights. However, the credit risks of these transactions are substantially retained. In this way, the Conglomerate continues to recognize these transactions in its balance sheet in an associated liability.

i. Non-current assets held for sale

The non-current assets and groups of assets held for sale are classified as intended for sale if their carrying amount is recovered principally by means of sale instead of continual use. This condition is only fulfilled when the sale is highly probable and the long-term asset is available for immediate sale in its current condition. Management must be committed to the sale, which is expected, upon recognition, to be considered as a sale completed within one year from the date of classification.

Carrying amounts of these items are initially recorded in the balance sheet by the lower between: (a) the fair value of the assets less the estimated costs of sale; (b) the carrying amount of the loan.

Disposal of these assets is carried out in their current conditions through periodic official auctions, and they may be held as non-current assets for a period of one (1) year, which may be prolonged with consent from the regulatory agency (Central Bank of Brazil).

j. Contingent assets

Contingent assets are recognized in the financial statements only when there is evidence that gives rise to assurance of their realization, on which no further recourses are pertinent, characterizing the earnings as practically certain. There is no contingent asset recognized in these financial statements.

k. Tangible assets

Tangible assets are recognized at the cost of acquisition, after deduction of the relevant depreciation account. Depreciation is calculated by the linear method, based on the following annual rates:

- Installations, furniture and equipment for use – 10%;
- Communication, security and transportation systems – 10%;
- Data processing systems and leased assets – 20%;
- Improvements to third party property – term of the lease agreement.

Purchased software that is a constituent part of the functionality of a piece of equipment is capitalized as a part of the equipment.

The assets are subject to the assessment of recoverable value at annual periods.

l. Intangible assets

Development activities that involve a project aimed at the production of new or substantially enhanced products. The development expenditures are only capitalized if the costs of development can be measured reliably, if the product or process is technically and commercially viable, if the future economic benefits are probable and if the Conglomerate has the intention and the sufficient resources to complete the development and use the asset.

Intangible assets include rights that have as their subject-matter the intangible assets intended for the maintenance of the company or that are exercised with such a purpose. The amortization is calculated using the linear method, based on the following periods:

- Licenses and software – term of the agreement for use;
- Goodwill – term of the lease agreement;
- Commercialization rights agreement - term of the agreement;
- Corporate projects - period in which the future economic benefits are expected.

The assets are subject to the assessment of recoverable value at annual periods.

m. Taxes and contributions on income

Income tax has been assessed based on a rate of 15%, with an additional surtax of 10%, while social contribution has been assessed based on a rate of 15% for financial institutions and 9% for non-financial institutions, both applicable to taxable income, and considers the offset of tax losses and negative base of social contribution, limited to 30% of taxable income.

Income tax and social contribution expenses comprise the current and deferred taxes and contributions on income. Current tax and deferred tax are recognized in profit or loss unless they are recognized in stockholders’ equity.

Current income tax is the current income tax liability expected based on the taxable income or loss for the fiscal year.

Deferred tax assets are established according to a study prepared by the Management of the capability of realization.

Deferred tax is generated by temporary differences on balance sheet date between the tax bases of assets and liabilities and their book values for purposes of financial disclosure.

Deferred tax assets are recognized for all the deductible temporary differences, unused tax credits and losses, to the extent that it is probable that taxable income is available so that the deductible temporary differences can be realized.

The carrying amount of the deferred tax assets is revised monthly and written off to the extent that it is no longer probable that taxable income will be available to permit that all or a portion of the deferred tax asset may be used. Deferred tax assets written off are reassessed on each balance sheet date and are recognized to the extent that it becomes probable that future taxable income will enable the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the year in which the asset is realized or the liability is settled, based on the tax rates that were applicable on balance sheet date.

Asset current taxes and liability current taxes are only offset and the net amount reported in the balance sheet when there is a legally applicable right to offset the amounts recognized and there is an intention of settling them on a net basis, or of realizing the asset and settling the liability simultaneously. Deferred tax assets and deferred tax liabilities are offset when there is a legally applicable right and the intention of settling by the net amount, establishing a reliable form if the deferred tax liability will result in higher payments of tax in the same period in which a deferred tax asset will result in lower payments.

n. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are recorded and measured at fair value, and any alterations of fair value are immediately recognized in the result. Under international accounting standards (IAS 39), this liabilities category may be divided into two distinct categories:

i. **Financial liabilities at fair value through profit or loss - designated at fair value -** The Conglomerate had no financial liability at fair value through profit or loss – designated at fair value in its portfolio in the fiscal years ended December 31, 2012 and 2011.

ii. **Financial liabilities at fair value through profit or loss – held for trading -** The financial liabilities at fair value through profit or loss – held for trading and recognized by the Conglomerate correspond to committed transactions, loans of stock and derivative financial instruments, unless they are designated and effective as hedge instruments – and the financial liabilities designated at fair value through profit or loss in the initial recognition (fair value option). This designation may not be subsequently altered. Under IAS 39, the fair value option may only be used if it reduces or eliminates accounting inconsistencies in the result or if the financial assets comprise a portfolio for which risk is managed and reported to Management based on its fair value, or if these assets consist of debt instruments and embedded derivatives that must be separated.

o. Financial liabilities at amortized cost

Financial liabilities at amortized cost are recognized initially by their fair value, with addition of any attributable transaction costs. After initial recognition, these financial liabilities are measured by the amortized cost using the effective interest method. The charges calculated by the amortized cost are shown in the statement of income as interest expense.

p. Financial liabilities associated with transferred assets

Financial liabilities associated with transferred assets consist of:

- The contractual obligations established with the acquiring assignees of loans and receivables portfolios with a joint liability clause or significant retention of credit risk; and

- The equity position of the unitholders that participate in funds for investment in credit rights, consolidated in these financial statements, according to explanatory notes Nos. 2e and 2j.

The financial liabilities with assignees are initially recognized by their fair value, with addition of any attributable transaction costs. After initial recognition, these financial liabilities are measured by the amortized cost, using the effective interest method. The charges calculated by the amortized cost are shown in the statement of income as interest expense.

q. Deposits by financial institutions and clients

Deposits by financial institutions and clients are initially recognized by their fair value, with the addition of any attributable transaction costs. After initial recognition, these deposits are measured by the amortized cost through the effective interest method. The charges calculated by the amortized cost are shown in the statement of income as interest expense.

r. Loans and onlendings, securities issued and subordinated liabilities

Loans and onlendings, securities issuedd and subordinated liabilities are initially recognized by their fair value, with addition of any attributable transaction costs. After initial recognition these liabilities are measured by the amortized cost through the effective interest method. The charges calculated by the amortized cost are shown in the statement of income as interest expense.

The loans and onlendings, securities issuedd and subordinated liabilities that are subject-matter of hedging of derivative financial instruments are appraised by their fair value using a consistent and verifiable criterion. The changes of their fair value are recognized in the profit or loss for the period and are shown in the statement of income as results of the financial liabilities at fair value through profit or loss.

s. Provisions

Contingent liabilities are recognized in the financial statements when, based on the opinion of legal advisors and of Management, a risk of loss is considered probable in a judicial or administrative action, with probable expenditure of funds for settlement of the obligations, and when the amounts involved are measurable with sufficient reliability.

Contingent liabilities classified as possible losses are not recognized, and are only disclosed in the explanatory notes, while those classified as remote do not require provision or disclosure.

t. Legal obligations

The legal obligations are judicial proceedings related to tax obligations, where the subject-matter of their legal answer is their legality or constitutionality, which have their amounts fully recognized in the financial statements, based on the Management's risk analysis.

u. Other assets and other liabilities

Other assets are shown at realization value, including, when applicable, earnings and monetary and foreign exchange variances earned and a provision for loss when deemed necessary.

Other liabilities are shown at known or calculable amounts, with the addition of charges and of any monetary and foreign exchange variances incurred.

v. Capital stock

Common shares

Common shares are classified as stockholders' equity. Additional costs that are directly attributable to the issuance of shares are recognized as deductions to stockholders' equity, net of any tax effect. On December 31, 2012 and 2011, there were no costs directly attributable to the issuance of shares.

Preferred shares

Preferred capital is classified as stockholders' equity. Preferred shares have no voting rights and have preference for settlement of their portion of the capital stock.

The minimum compulsory dividends, as defined in the by-laws, are recognized as liabilities.

w. Reserves

Capital reserves

The capital reserve is accrued as premium in the subscription of shares.

Profit reserves – Legal reserve

Accrued compulsorily based on 5% of the net income obtained according to the corporate accounting for the period, until reaching a limit of 20% of capital stock obtained from the same corporate base. The legal reserve may cease to be constitueted when, increased by the amount of capital reserves, exceeding 30% of capital stock. The capital reserve may only be used for the increase of capital or to offset losses.

Profit reserves – Reserve for expansion
At the end of the fiscal year Management proposes the allocation of undistributed profit/loss to Reserve for Expansion, accrued after the other allocations. The balance of the reserve is available for the shareholders for future resolution in a Shareholders' Meeting.

Dividends for common and preferred shares
Dividends for common and preferred shares are recognized as a liability and deducted from stockholders' equity when approved by the shareholders. Dividends on interim dates are deducted from stockholders' equity when declared and are not subject to future resolution by the Conglomerate.

Dividends for the year that were approved after the balance sheet date are disclosed as an event subsequent to the date of the balance sheet.

x. Payment based on shares
During the fiscal year ended December 31, 2012 the Conglomerate created a program of payment based on stock, according to the internal policy of the Human Resources area. The accounting effects will occur starting in the next fiscal year.

y. Interest revenues and expenses
For all financial instruments measured at amortized cost, interest-bearing financial assets that are classified as available for sale and financial instruments designated at fair value through profit or loss, the interest revenues or expenses are recorded using the effective interest rate. The calculation takes into consideration all of the contractual terms of the financial instrument and includes any incremental fees or costs that are directly attributable to the instrument and are constituent parts of the effective rate, but not of the future credit losses. The carrying amount of a financial asset or liability is adjusted when the Conglomerate revises its estimates of payments and receipts.

z. Revenues and expenses from services and commission fees
The Conglomerate earns revenue from services and commission fees through various types of services that it provides for its clients. Fees earned from providing services in the course of the period are appropriated in the course of the same period.

For revenues from holding fees for loan commitments, where the credit will probably not be used, the revenue is recognized in the course of the term of the commitment using the linear method.

aa. Revenues from dividends
Revenues from dividends are recognized when the right to receive is established. Dividends are reflected as a component of Results of financial assets booked at fair value by means of profit or loss or in Other operating revenue, according to the classification of the instrument of capital.

bb. Operating segments
Management administrates the operating results of its business units separately in order to take decisions concerning allocation of resources and performance evaluations. The performance of the segment is appraised based on the profit or loss of the operation, which in certain cases is measured differently from operating profit or losses in the consolidated financial statements.

Interest revenues are reported net, since the Management depends first on the net interest revenue as a measure of performance, and not on gross revenue and expenses. Transfer prices between operating segments are conducted at market prices, in a form that is similar to the transactions carried out with third parties.

cc. Administration of investment funds

The conglomerate manages and administrates assets held in investment funds and other categories of investment in favor of the investors. The financial statements for these funds are not consolidated in the consolidated financial statements of the conglomerate, except for those of funds that are controlled by the conglomerate. Information on the administration of funds by the conglomerate is available in Explanatory Note No. 2J.

dd. Subsequent events

Up to the date of closing of these financial statements no subsequent event was identified that could change substantially the equity position of the conglomerate.

4 Cash and cash equivalents

	2012	2011
Cash available	155,670	188,188
Cash	427	420
Bank deposits	107,738	81,199
Cash and cash equivalents in foreign currencies	47,505	106,569
Interbank liquidity investments	1,022,431	5,406,716
Committed trans. – Own position	462,765	4,062,765
Investments in interbank deposits	125,901	1,087,331
Investments in foreign currencies	433,765	256,620
Total	1,178,101	5,594,904

5 Financial assets with resale agreement

	2012		2011	
	Market Value (book)	**Fair Value of Guarantee**	**Market Value (book)**	**Fair Value of Guarantee**
Committed trans. – Own position	2,507,727	2,457,036	3,305,384	3,064,960
Federal Treasury Bills	777,367	783,360	662,173	675,296
National Treasury Notes	1,701,189	1,644,086	2,643,211	2,389,664
Others	29,171	29,590	-	-

	2012		2011	
	Market Value (book)	**Fair Value of Guarantee**	**Market Value (book)**	**Fair Value of Guarantee**
Committed trans. – Own position	10,922,486	10,988,051	6,312,841	6,383,763
Financial Treasury Bills	541,791	543,938	2,465,337	2,471,265
Federal Treasury Bills	8,544,636	8,621,303	3,649,107	3,712,412
National Treasury Notes	1,836,059	1,822,810	198,397	200,086
Committed trans. – Financed position	484,660	482,061	-	-
Federal Treasury Bills	231,130	236,438	-	-
National Treasury Notes	253,530	245,623	-	-
Total	13,914,873	13,927,148	9,618,225	9,448,723

6 Financial assets

a. Financial assets at fair value through profit or loss

	2012			2011		
	Cost Value	**Fair value (book)**	**Unrealized profit / (loss)**	**Cost Value**	**Fair value (book)**	**Unrealized profit / (loss)**
In Brazil	11,193,693	11,357,803	164,110	8,235,321	8,320,601	85,280
Financial Treasury Bills	1,330,269	1,329,921	(348)	727,758	727,805	47
Federal Treasury Bills	3,069,239	3,068,593	(646)	515,304	515,161	(143)
National Treasury Notes	3,424,658	3,442,800	18,142	2,778,912	2,820,015	41,103
Real Estate Receipts Certif.	301	301	-	12,247	12,247	-
Debentures	315,554	363,533	47,479	261,573	291,183	29,610
Agrarian Debt Instruments	29,848	31,821	1,973	31,468	33,118	1,650
Rural Product Certificates	353,617	359,941	6,324	401,986	416,603	14,617
Promissory Notes	-	-	-	101,507	101,507	-
Units of Invest. Funds	-	-	-	2,578,349	2,578,349	-
FIDC Units (Receivables Funds)	2,152,752	2,152,752	-	289,325	289,325	-
Shares of public companies	32,920	29,333	(3,587)	69,800	68,196	(1,604)
Shares of non-public companies	484,535	578,808	94,273	467,092	467,092	-
Abroad	1,101,404	1,103,052	1,648	1,678,688	1,691,203	12,515
Foreign Governments	614,666	614,669	3	1,376,790	1,383,392	6,602
National Treasury	311,612	310,704	(908)	104,069	106,299	2,230
Others Instruments	175,126	177,679	2,553	197,829	201,512	3,683
Total	12,295,097	12,460,855	165,758	9,914,009	10,011,804	97,795

b. Financial assets available for sale

	2012			2011		
	Cost Value	**Fair value (book)**	**Unrealized profit / (loss)**	**Cost Value**	**Fair value (book)**	**Unrealized profit / (loss)**
In Brazil	21,799,480	22,177,802	378,323	15,443,681	15,372,330	(71,351)
Financial Bills	73,012	73,012	-	-	-	-
Financial Treasury Bills	11,905,662	12,062,472	156,810	5,145,765	5,125,335	(20,430)
National Treasury Notes	4,685,729	4,947,329	261,600	5,968,134	6,011,139	43,005
Real Estate Receipts Certif.	41,894	43,161	1,267	16,154	17,000	846
Debentures	2,152,753	2,152,845	93	1,384,942	1,352,215	(32,727)
Rural Product Certificates	348,086	348,294	208	-	-	-
Certificate of Receipt of Agribusiness	59,265	59,928	663	-	-	-
Promissory Notes	430,981	430,987	6	261,144	261,126	(18)
Units of Invest. Funds	419,920	419,920	-	372,996	372,996	-
FIDC Units (Receivables Funds)	37,580	37,580	-	427,238	427,238	-
Shares of public companies	69,521	54,514	(15,007)	62,326	54,343	(7,983)
Shares of non-public companies	1,463,794	1,480,681	16,887	1,700,040	1,688,436	(11,604)
Other shares	-	-	-	6	6	-
Tax incentive investments	111,101	66,897	(44,204)	104,759	62,319	(42,440)
Equity securities	176	176	-	177	177	-
Others Instruments	6	6	-	-	-	-
Abroad	721,866	750,609	28,743	713,209	673,139	(40,070)
Others Instruments	721,866	750,609	28,743	713,209	673,139	(40,070)
Total	22,521,346	22,928,411	407,065	16,156,890	16,045,469	(111,421)

7 Derivative financial instruments

a. Breakdown in equity accounts

	2012	**2011**
Assets		
Swap differences receivable	1,576,205	936,599
Currency term forward contracts	41,095	1,561
Acquisition of purchase options – Shares	4,838	5,886
Acquisition of selling options – Shares	11,779	796
Acquisition of purchase options – Fin./ Comm. assets	65,247	448,504
Acquisition of selling options - Fin./ Comm. Assets	38,783	32,821
Credit derivatives	13,966	45,216
Non-deliverable forwards	133,785	176,431
Others	93,853	29,130
Total	1,979,551	1,676,944

	2012	2011
Liabilities		
Swap differences payable	1,355,585	851,589
Currency term forward contracts	41,740	935
Sale of purchase options – Shares	13,713	1,170
Sale of selling options – Shares	9,502	339
Sale of purchase options – Fin./ Comm. assets	126,695	379,642
Sale of selling options - Fin./ Comm. Assets	42,654	157,677
Credit derivatives	8,606	36,146
Non-deliverable forwards	62,364	47,120
Others	74,391	7,386
Total	1,735,250	1,482,004

b. Breakdown of swap contracts by indicator

	2012			2011		
	Original Amount	**Curve amount**	**Fair value**	**Original Amount**	**Curve amount**	**Fair value**
Asset position	28,068,124	30,877,905	32,567,980	26,413,149	28,598,238	29,802,418
DI (Interbank Deposits)	11,786,096	12,578,768	13,484,336	11,788,416	12,212,857	13,261,785
Dollar	4,348,667	5,148,742	5,378,628	4,561,641	5,129,083	5,219,953
Euro	480,933	557,716	563,780	479,815	504,654	506,797
IGPM (General Market Price Index)	789,103	1,121,666	1,224,316	1,172,403	1,509,120	1,536,882
IPCA (Broad Consumer Prices Index)	5,063,530	5,539,828	5,917,304	3,774,454	4,153,412	4,179,558
Prefixed	3,439,669	3,591,899	3,645,752	2,344,148	2,751,801	2,795,384
Libor	1,398,882	1,458,013	1,462,938	1,566,664	1,534,893	1,517,827
Swiss Franc	441,047	561,143	573,403	441,047	501,328	511,258
Commodities	13,672	13,605	13,603	3,192	19,720	2,999
Others	306,525	306,525	303,920	281,369	281,370	269,975
Liability position	28,068,124	30,297,209	32,347,360	26,413,149	28,216,829	29,717,408
DI (Interbank Deposits)	9,604,131	10,404,028	10,443,641	7,802,011	8,695,648	8,710,616
Dollar	2,614,193	2,938,682	3,009,129	2,144,944	2,357,482	2,391,096
Euro	53,648	53,238	53,095	88,792	89,228	89,073
IGPM (General Market Price Index)	533,300	852,668	929,154	837,270	1,203,870	1,229,837
IPCA (Broad Consumer Prices Index)	6,745,472	8,103,821	8,730,500	5,411,638	6,870,856	7,054,138
Prefixed	7,359,833	6,768,893	7,988,471	9,518,811	8,390,047	9,665,522
Libor	617,466	610,782	625,654	345,964	331,402	303,892
TJLP (Long-Term Interest Rate)	514,392	530,698	532,382	247,121	255,276	249,476
Commodities	13,786	13,672	13,536	4,270	4,150	3,950
Others	11,903	20,727	21,798	12,328	18,870	19,808
Net difference	-	580,696	220,620	-	381,409	85,010

c. Breakdown of term forward contracts

	2012			2011		
	Original Amount	Curve amount	Fair value	Original Amount	Curve amount	Fair value
Asset position						
Currency term forward contract	12,011	40,894	41,095	16,969	1,561	1,561
Total	12,011	40,894	41,095	16,969	1,561	1,561
Liability position						
Currency term forward contract	28,883	40,894	41,740	7,884	935	935
Total	28,883	40,894	41,740	7,884	935	935

d. Breakdown of option agreements by indicator

	2012		2011	
	Contracted Amount	Fair value (book)	Contracted Amount	Fair value (book)
Long position				
Dollar	7,901,119	37,600	5,689,314	360,527
Index	14,674,731	49,520	112,383	1,599
DI (Interbank Deposits)	-	-	248,425,587	27,616
Shares	826,500	16,617	177,824	6,682
Commodities	486	7	770	2
Flexible	446,646	16,903	1,662,055	91,581
Total	23,849,482	120,647	256,067,933	488,007
Short position				
Dollar	10,027,200	60,307	9,990,840	348,182
Index	14,643,331	16,562	200,640,079	86,048
DI (Interbank Deposits)	-	-	688	54,257
Shares	1,026,600	23,215	122,726	1,509
Commodities	1,105	52	19,769	1,648
Flexible	1,091,763	92,428	2,085,477	47,184
Total	26,789,999	192,564	212,859,579	538,828

e. Breakdown of the forward contracts by indicator

	2012	2011
Purchase commitment	27,063,268	75,672,583
DDI	14,169,766	12,615,757
Dollar	2,225,922	285,048
DI (Interbank Deposits)	10,167,834	61,717,665
Commodities	29,864	8,886
Index	258,056	52,577
CAS (Credit Assignment System)	204,194	577,702
Currency Exchange Coupon	7,632	414,948
Selling commitment	75,899,787	79,210,346
DDI	13,745,585	12,527,641
Euro	509	17,814
Dollar	3,313,492	635,806
DI (Interbank Deposits)	58,236,640	65,051,440
Commodities	42,679	33,911
T-Note	344,484	330,588
Index	12,513	35,993
BGI	-	96
CAS (Credit Assignment System)	203,460	576,660
Currency Exchange Coupon	425	397
Net difference	(48,836,519)	(3,537,763)

f. Breakdown of NDF (non-deliverable forwards) by indicator

	2012		2011	
	Contracted Amount	Fair value (book)	Contracted Amount	Fair value (book)
Assets				
Dollar	2,189,894	74,950	2,084,285	99,912
Euro	4,556	169	12,517	313
Yuan	-	-	112,548	2,579
Brazilian Reais	382,289	58,556	351,712	73,487
Others	935	110	4,230	140
Total	2,577,674	133,785	2,565,292	176,431
Liabilities				
Dollar	3,177,828	58,823	1,153,822	36,632
Euro	38,421	1,319	1,216	11
Yuan	-	-	112,548	1,397
Brazilian Reais	276,745	2,222	49,708	8,793
Others	-	-	3,090	287
Total	3,492,994	62,364	1,320,384	47,120
Net difference	(915,320)	71,421	1,244,908	129,311

g. Credit derivatives

	2012		2011	
	Reference amount	Market value	Reference amount	Market value
Risk received				
Credit Swaps	2,963,075	10,704	3,132,586	(20,798)
Total	2,963,075	10,704	3,132,586	(20,798)
Risk transferred				
Credit Swaps	872,596	5,344	946,491	(29,868)
Total	872,596	5,344	946,491	(29,868)

h. Credit derivatives by indicator

	2012			2011		
	Original Amount	**Curve amount**	**Market value**	**Original Amount**	**Curve amount**	**Market value**
Asset position						
Prefixed	3,187,860	7,128	13,966	2,644,090	29,164	45,216
Total	3,187,860	7,128	13,966	2,644,090	29,164	45,216
Liability position						
Prefixed	647,810	(95)	8,606	1,434,987	4,507	36,146
Total	647,810	(95)	8,606	1,434,987	4,507	36,146
Net difference	2,540,050	7,223	5,360	1,209,103	24,657	9,070

i. Hedge Account – Equity position

Hedged items at fair value

	2012	**2011**
Financial assets	**45,781,400**	**44,418,406**
Financial assets with resale agreement	4,078,677	-
Financial assets at fair value through profit or loss	268,514	-
Loans and receivables	41,434,209	44,418,406
Financial liabilities	**(10,272,259)**	**(6,057,213)**
Loans and onlendings	(1,962,161)	(477,589)
Securities issued	(4,838,636)	(2,888,897)
Subordinated liabilities	(2,929,767)	(2,199,747)
Derivative financial instruments	(541,695)	(490,980)
Total	**35,509,141**	**38,361,193**

Derivative financial instruments for fair value hedges

	2012	**2011**
Financial assets	**10,438,107**	**6,912,301**
DDI Forwards	9,588,462	5,923,272
IGPM - DI (IGPM) Swaps	276,242	-
EUR - DI (EUR) Swaps	-	477,771
CHF - DOL (CHF) Swaps	573,403	511,258
Financial liabilities	**(50,436,992)**	**(46,918,583)**
DI1 Forwards	(47,477,052)	(44,279,019)
DDI Forwards	(2,959,940)	(2,597,358)
DOL Forwards	-	(42,206)
Total	**(39,998,885)**	**(40,006,282)**

j. Hedge Accounting – Result

Hedged items at fair value

	2012		2011	
	Positive result	**Positive result**	**Negative result**	**Positive result**
Financial assets	2,677,110	(2,922,998)	2,657,821	(1,479,710)
Financial liabilities	1,147,529	(440,157)	1,138,902	(2,138,665)
Total	**3,824,639**	**(3,363,155)**	**3,796,723**	**(3,618,375)**

Derivative financial instruments for fair value hedges

	2012		2011	
	Positive result	**Positive result**	**Negative result**	**Negative result**
Financial assets	447,094	(1,156,581)	2,153,922	(1,045,530)
Financial liabilities	2,912,659	(2,712,013)	1,307,821	(2,482,975)
Total	**3,359,753**	**(3,868,594)**	**3,461,743**	**(3,528,505)**

8 Loans and receivables

a. Breakdown of the transactions

	2012	2011
Advances to depositors	384	895
Loans	16,559,291	16,168,797
Discounted trade bills	85,025	61,127
Financing	30,743,468	34,126,401
Export financing	3,581,278	3,429,810
Financing in foreign currency	629,733	550,594
Rural financing	342,088	877,329
Real estate financing	606,365	234,220
Infrastructure and development financing	30,667	-
Advances on foreign exchange contracts	892,338	748,484
Financial leasing transactions *	2,055,060	3,424,935
Credits for corporate/personal guarantees and other guarantees	94	-
Credits assigned with co-liability	10,931,633	15,343,709
Credits assigned with substantial retention of risks	3,892,084	4,834,530
Total transactions with characteristics of granting of credit	70,349,508	79,800,831
Provision for losses due to impairment	(5,198,205)	(3,702,271)
Associated costs	1,064,707	1,402,896
Other receivables	4,026,278	8,272,004
Total loans and receivables	70,242,288	85,773,460

(*) The leasing portfolio broken down by maturity, was shown as follows:

December 31, 2012

	Future minimum payments	Unearned discount	Present value
Up to 1 year	2,639,477	(923,931)	1,715,546
From 1 to 5 years	1,059,084	(719,623)	339,461
Over 5 years	87	(34)	53
Total	3,698,648	(1,643,588)	2,055,060

December 31, 2011

	Future minimum payments	Unearned discount	Present value
Up to 1 year	4,148,901	(1,224,782)	2,924,119
From 1 to 5 years	2,004,712	(1,503,886)	500,826
Over 5 years	-	(10)	(10)
Total	6,153,613	(2,728,678)	3,424,935

b. Breakdown of other receivables

	2012	2011
Investments in interbank deposits	1,828,617	1,297,505
Deposits with Central Bank	1,177,120	5,846,931
Interbank onlendings	98,733	157,524
Relations with correspondents	33,913	28,460
Earnings receivable	81,061	22,522
Amounts receivable from related companies	5	122
Credit card transactions	369,402	281,823
Settlement of foreign instruments	16,853	233,741
Benefits from usufruct rights of shares in non-public companies	239,736	292,521
Trading and intermediation of securities	116,712	109,115
Others	64,126	1,740
Total	4,026,278	8,272,004

c. Provision for losses due to impairment

	2012	2011
Loans and receivables	(4,557,445)	(3,158,572)
Assigned credits	(640,760)	(543,699)
Total	(5,198,205)	(3,702,271)

9 Current tax assets

	2012	2011
Income tax to be offset	577,531	874,227
Social contribution to be offset	243,027	488,829
PIS (Social Integration Program) to be offset	6,984	15,783
COFINS (Social Contribution for Financing of Social Security) to be offset	42,028	96,212
Other assets	1,626	1,624
Offset of current tax assets (a)	(204,555)	(353,691)
Total	666,641	1,122,984

(a) In 2012 concerns assets from advances of Income Tax on Taxable Income amounting to R$153,216, advances of Social Contribution on Taxable Income of R$47,372, Recoverable Withholding Income Tax in the amount of R$2,888, Recoverable Social Contribution on Net Income amounting to R$434 and Withholding Income Tax on JCP (local acronym for Interest on Equity) amounting to R$645. In 2011 concerns liabilities of current fiscal years on the Taxable Income.

10 Deferred tax assets

a. Breakdown of deferred tax assets

	2012	2011
IR (Income Tax) losses	745,578	856,508
CS (Social Contribution) negative base	3,914	37,674
Adjustment to fair value of financial assets	96,188	19,603
Adjustment to fair value of derivatives	363,215	105,734
Profit sharing	77,347	-
Provision for losses due to impairment	3,312,873	1,346,031
Provisions	322,665	134,519
Legal obligations	691,429	223,003
Offset of supervening / insufficiency of depreciation	(217,155)	-
Results of foreign establishments	138,433	138,433
Others	119,642	38,542
Offset of deferred tax assets	(724,771)	(376,683)
Total	4,929,358	2,523,364

b. Deferred tax assets activity in the period

	2012	2011
Beginning balance	2,523,364	2,040,681
IR (Income Tax) losses	(110,930)	22,680
CS (Social Contribution) negative base	(33,760)	(19,115)
Adjustment to fair value of financial assets	76,585	15,631
Adjustment to fair value of derivatives	257,481	103,014
Profit sharing	77,347	-
Provision for losses due to impairment	1,966,842	570,733
Provisions	188,146	91,044
Derivatives – Cash system	-	(1,600)
Legal obligations	468,426	-
Results of foreign establishments	-	43,945
Insufficient depreciation	(217,155)	-
Others	81,100	33,034
Offset of deferred tax assets	(348,088)	(376,683)
Ending balance	4,929,358	2,523,364

c. Expectation of realization of deferred tax assets

	Book value
2013	1,239,051
2014	614,321
2015	456,108
2016	598,896
2017	746,461
As from 2018	1,274,521
Total	4,929,358

11 Non-current assets held for sale

	2012	2011
Assets not for own use		
Real estate	10,505	4,326
Vehicles	142,051	97,500
Total	152,556	101,826

12 Other assets

	2012	2011
Foreign exchange purchased to be settled	2,277,885	856,544
Rights of sale of foreign exchange	1,500,282	9,625
Advances in local/foreign currency received	(18,412)	(4,504)
Record and settlement cash	-	15,791
Settlement account debtors outstanding	79,980	28,762
Salary advances	2,791	2,980
Advances to suppliers	1,486	3,184
Guarantee deposit debtors	625,792	495,789
Others	16,448	60,904
Total	4,486,252	1,469,075

13 Tangible assets

	2012			2011		
	Cost	Depreciation/ Amortization	Net	Cost	Depreciation/ Amortization	Net
Fixed assets in construction	-	-	-	111	-	111
Installations	48,439	(11,527)	36,912	49,795	(6,040)	43,755
Furniture and equipment for use	55,456	(23,775)	31,681	55,433	(18,854)	36,579
Communications system	12,062	(8,062)	4,000	11,966	(7,069)	4,897
Data processing system	76,284	(61,238)	15,046	73,580	(52,346)	21,234
Security system	2,337	(916)	1,421	2,308	(718)	1,590
Transportation system	1,115	(965)	150	1,685	(1,493)	192
Improvements to third party properties	43,167	(15,990)	27,177	43,164	(12,594)	30,570
Total	238,860	(122,473)	116,387	238,042	(99,114)	138,928

	2012	2011
Beginning balance	138,928	130,328
Acquisitions	15,238	45,467
Retirements	(13,336)	(3,709)
Depreciation/amortization	(24,443)	(33,158)
Ending balance	116,387	138,928

On December 31, 2012 and 2011, no relevant assets with impairment indicator has been identified.

14 Intangible assets

	2012			2011		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Software without physical substance	4,534	(1,282)	3,251	4,031	(971)	3,060
Licenses	24,269	(9,534)	14,735	17,243	(5,355)	11,888
Commercialization rights agreement	5,000	(1,915)	3,085	5,000	(1,165)	3,835
STI – AMBID (local acronyms for Information Exchange System - National Association of Investment and Development Banks)	4,485	(2,242)	2,243	3,531	(252)	3,279
Corporate projects	29,205	(118)	29,087	20,266	-	20,266
Total	67,493	(15,091)	52,401	50,071	(7,743)	42,328

	2012	2011
Beginning balance	42,328	22,043
Acquisitions	20,219	31,550
Retirements	(5,146)	(7,226)
Amortization	(5,000)	(4,039)
Ending balance	52,401	42,328

On December 31, 2012 and 2011, no relevant assets with impairment indicator has been identified.

Expected realization of intangible assets

	Book value
2013	6,537
2014	6,691
2015	6,318
2016	1,314
As from 2016	31,541
Total	52,401

15 Financial liabilities at fair value through profit or loss

	2012			2011		
	Cost	**Fair value**	**Unrealized profit / (loss)**	**Cost**	**Fair value**	**Unrealized profit / (loss)**
In Brazil						
Committed transactions – Free activity	484,661	493,277	(8,616)	8,481	8,465	16
Creditors for loaned shares	-	27	(27)	4,181	4,169	12
Foreign securities	111,453	114,133	(2,680)	109,495	111,072	(1,577)
Total	596,114	607,437	(11,323)	122,157	123,706	(1,549)

16 Financial liabilities at amortized cost

	2012	**2011**
Committed transactions – own portfolio	34,087,804	27,111,269
Financial Treasury Bills	159,652	6,537
Federal Treasury Bills	8,630,826	1,232,272
National Treasury Notes	4,377,383	4,204,975
Banking deposit certificate	2,823	9,170
Debentures	316,761	634,814
Own securities issued	19,859,603	20,029,599
Other foreign securities	210,471	102,628
Others	530,285	891,274
Committed transactions - third party portfolios	7,690,514	6,326,734
Financial Treasury Bills	492,914	2,465,628
Federal Treasury Bills	5,402,562	3,662,673
National Treasury Notes	1,795,038	198,433
Options Box	1,034,208	1,928,765
Fixed income strategy	1,034,208	1,928,765
Total	42,812,526	35,366,768

17 Financial liabilities associated with transferred assets

	2012	**2011**
Assignees	12,296,370	17,522,792
FIDC (recievables funds) unitholders	3,725,425	5,612,141
Other liabilities	148,790	350,040
Total	16,170,585	23,484,973

18 Financial institution deposits

	2012	2011
Interbank deposits	2,356,810	2,856,203
Total	2,356,810	2,856,203

19 Client deposits

	2012	2011
Demand deposits	281,492	431,760
Term deposits	12,626,142	22,336,676
Total	12,907,634	22,768,436

20 Loans and onlendings

		2012	2011
Loans in Brazil			
With foreign exchange variance	(a)	11,414	15,279
Loans Abroad			
With foreign exchange variance	(b)	5,099,219	5,148,118
Onlendings in Brazil – National Treasury			
Prefixed	(c)	126,555	155,089
Post-fixed	(d)	32,727	-
Onlendings in Brazil – BNDES (National Economic and Social Development Bank)			
Prefixed	(e)	979,359	1,138,657
Post-fixed	(f)	1,864,653	2,265,248
With foreign exchange variance	(g)	113,266	97,038
Onlendings in Brazil – FINAME (Government financing for machinery and equipment)			
Prefixed	(h)	1,620,420	2,129,639
Post-fixed	(i)	388,313	529,294
Total		10,235,926	11,478,362

(a) Restatement rate in 2012: CDI + 0.40% p.a. + foreign exchange variance.

(b) Restatement rate in 2012: from 0.50% p.a. to 5.95% p.a. + foreign exchange variance / 0.80% p.a. to 8.45% p.a. + Libor.

(c) Restatement rate in 2012: from 5.50% p.a. to 6.75% p.a.

(d) Restatement rate in 2012: Selic.

(e) Restatement rate in 2012: from 1.50% p.a. to 9.00% p.a.

(f) Restatement rate in 2012: from 8.14% p.a. to 9.91% p.a. + IPCA / from 0.50% p.a. to 4.50% p.a. + TJLP.

(g) Restatement rate in 2012: from 0.90% p.a. to 6.27% p.a. + foreign exchange variance.

(h) Restatement rate in 2012: from 0.30% p.a. to 9.80% p.a.

(i) Restatement rate in 2012: from 0.50% p.a. to 5.50% p.a. + TJLP.

21 Securities issued

		2012	2011
Debentures			
Post-fixed	(a)	1,496,058	3,131,148
Associated costs		-	(16,307)
Funds of Real Estate Credit Bills			
Post-fixed	(b)	132,530	6,980
Funds of Agribusiness Credit Bills			
Post-fixed	(c)	2,208,220	1,635,424
Prefixed	(d)	5,167	16,535
Financial Bills			
Prefixed	(e)	180,537	56,886
Post-fixed	(f)	10,786,552	7,087,451
Foreign Securities and Bonds Obligations			
Prefixed	(g)	1,499,300	-
With foreign exchange variance	(h)	6,398,021	5,821,147
Total		22,706,385	17,739,264

(a) Restatement rate in 2012: from 100% to 111% of DI.

(b) Restatement rate in 2012: from 93.00% to 97.36% of DI.

(c) Restatement rate in 2012: from 80.00% to 97.50% of DI.

(d) Restatement rate in 2012: from 8.48% to 12.35% p.a.

(e) Restatement rate in 2012: from 8.27% to 14.00% p.a.

(f) Restatement rate in 2012: from 100% to 112.02% of DI / from 108% to 109.3% of Selic rate / from 3.42% to 7.81% p.a. + IPCA / from 5.05% to 5.99% p.a. + IGPM.

(g) Restatement rate in 2012: from 3.57% p.a. to 19.77% p.a.

(h) Restatement rate in 2012: from 0.70% p.a.to 9.00% p.a. + foreign exchange variance.

22 Subordinated liabilities

		2012	2011
Subordinated financial bills			
Post-fixed	(a)	2,136,530	2,109,441
Bank deposit certificate			
Post-fixed	(b)	2,162,572	3,088,122
Subordinated notes			
With foreign exchange variance	(c)	2,692,109	2,199,747
Total		6,991,211	7,397,310

(a) Restatement rate in 2012: from 1.30% p.a. to 1.94% p.a. + CDI / from 115% to 119% of CDI / from 6.71% p.a. to 7.70% p.a. + IGPM / from 7.00% p.a. to 8.02% p.a. + IPCA.

(b) Restatement rate in 2012: from 1.64% p.a. to 1.67% p.a. + CDI / from 7.86% p.a. to 8.00% p.a. + IPCA.

(c) Restatement rate in 2012: 7.38% p.a. + PTAX.

23 Provisions

a. Breakdown of the contingent liabilities classified in the probable risk category

		2012	2011
Tax contingencies	(a)	472,479	5,307
Civil contingencies	(b)	274,758	192,217
Labor contingencies	(c)	528,058	139,633
Total		1,275,295	337,157

(a) Basically referring to: the tax issues involving Income Tax amounting to R$ 298,188 and CSLL (local acronym for social contribution on net income) amounting to R$ 171,726; which are presented in the Other obligations – tax and social security line item. The companies of the financial conglomerate filed a writ of mandamus in which they discuss the deductibility of COFINS (local acronym for social contribution for financing of social security) in the taxable income and in the calculation base for CSLL. For purposes of adequacy of the financial statements in the fiscal year, a provision was accrued relative to the liability in question (presented in the Other obligations – tax and social security line item) and the corresponding tax credit, in accordance with the characteristics / argumentations of the mentioned judicial discussion (shown in the Other credits – miscellaneous line item).

(b) Refer basically to actions claiming compensation of the following types: contestation of the total effective cost of the covenanted agreements, revision of the contractual conditions and charges, and tariffs, presented in the Other obligations – miscellaneous line item.

(c) In their great majority concern proceedings filed by former employees, the nature of which involves indemnities, overtime, de-characterization of the workday, job and representation allowances and others, presented in the Other obligations – miscellaneous line item.

The table below presents the expectation of realization of the cash flows of the contingent liabilities classified in the probable risk category

Quandaries	2013	2014	2015	2016	2017	After 2017	Total
Tax	2,191	3	-	1,488	-	468,797	472,479
Civil	144,092	87,308	32,771	8,262	2,325	-	274,758
Labor	110,725	127,356	127,356	127,235	29,725	5,661	528,058
Total	257,008	214,667	160,127	136,985	32,050	474,458	1,275,295

b. Activity of the contingent liabilities classified in the probable risk category

	Tax Proceedings		Civil Proceedings		Labor Proceedings	
	2012	2011	2012	2011	2012	2011
Beginning balance	5,307	6,413	192,217	23,290	139,633	83,988
Accruals/(Reversals)	466,757	(1,749)	86,860	168,927	390,254	55,645
Write-offs	-	-	(4,319)	-	(1,829)	-
Restatements	415	643	-	-	-	-
Ending balance	472,479	5,307	274,758	192,217	528,058	139,633

c. Breakdown of contingent liabilities classified in the possible risk category

		2012	2011
Tax contingencies	(a)	666,473	953,304
Civil contingencies	(b)	16,843	16,018
Labor contingencies	(c)	56,662	61,330
Total		739,978	1,030,652

(a) Basically referring to: a) IRPJ/CS (Corporate income tax / social contribution) equity accounting of foreign investments: R$ 191,408; b) IRPJ / CS improper offset – bonuses for statutory executive officers: R$ 23,718; c) IRPJ – Excess allocation to the FINOR (Northeast investments fund) (2006/2007): R$ 10,145; d) INSS (National Social Security Institute) - PLR BRANCH: R$ 43,520; e) ISS (municipal service tax): R$ 94,454; f) INSS: R$ 141,611; g) PIS / COFINS (Social Integration Program / Social contribution for financing of social security) on de-mutualization R$ 31,290;

(b) Basically concerning collection actions.

(c) In their great majority concerning proceedings filed by former employees, the nature of which involves indemnities, overtime, de-characterization of the workday, job and representation allowances and others.

d. In-court deposits

	2012	2011
Tax contingencies	484,601	398,412
Civil contingencies	90,323	-
Labor contingencies	50,709	40,272
Others	159	57,105
Total	625,792	495,789

24 Current tax liabilities

	2012	2011
Taxes and contributions on income payable	406,766	353,691
Taxes and contributions on third party services	4,046	5,880
Taxes and contributions on salaries	8,470	7,886
Taxes and contributions on financial investments	22,230	31,348
PIS	5,876	3,501
COFINS	36,162	21,545
ISS	5,506	5,335
IOF	14,665	21,919
Other taxes and contributions	595	1,162
Offset of current tax liabilities (a)	(204,555)	(353,691)
Total	299,761	98,576

(a) In 2012 concerns assets from advances of Income Tax on Taxable Income amounting to R$153,216, advances of Social Contribution on Taxable Income of R$47,372, Recoverable Withholding Income Tax in the amount of R$2,888, Recoverable Social Contribution on Net Income amounting to R$434 and Withholding Income Tax on JCP (local acronym for Interest on Equity) amounting to R$645. In 2011 concerns liabilities of current fiscal years on the Taxable Income.

25 Deferred tax liabilities

a. *Breakdown of deferred tax liabilities*

	2012	2011
Fair value adjustment of financial assets	89,523	18,173
Fair value adjustment of derivatives	-	141
Fair value adjustment of loans and receivables	669,728	389,792
Derivatives – Cash system	2,526	2,708
Supervenient depreciation	723,850	625,918
Offset of supervening / insufficiency of depreciation	(217,155)	-
Offset of deferred tax liabilities	(724,771)	(376,683)
Total	543,701	660,049

b. Activity of deferred tax liabilities

	2012	2011
Beginning balance	660,049	1,164,706
Fair value adjustment of financial assets	71,350	(62,049)
Fair value adjustment of derivatives	(141)	(150,225)
Fair value adjustment of loans and receivables	279,936	259,470
Derivatives – Cash system	(182)	(9,124)
Supervenient depreciation	97,932	(166,046)
Offset of supervening / insufficiency of depreciation	(217,155)	-
Offset of deferred tax liabilities	(348,088)	(376,683)
Ending balance	543,701	660,049

26 Legal obligations

Basically concerns a dispute on non-payment of COFINS (Social Contribution for Financing of Social Security) based on revenues that do not derive from monthly billings (broadening of the calculation base introduced by Law No. 9,718/98).

27 Other liabilities

	2012	2011
Third party funds in transit	38,528	122,735
Internal transfers of funds	510	218
Foreign exchange sold to be settled	1,500,474	9,642
Obligations due to purchases of foreign exchange	2,259,753	786,635
Record and settlement cash	8,780	11,524
Commission and brokerage fees payable	523	980
Outstanding creditors' settlement account	131,519	51,733
Provision for profit sharing	213,379	99,555
Provision for personnel expenses	183,544	96,732
Provision for administrative expenses	106,251	90,998
Commissions for intermediation of transactions	40,861	15,405
Credit card transactions	381,209	287,103
Settlement of foreign securities	1,920	1,050
Credit and leasing transactions to be released	36,370	31,364
Others (a)	342,446	209,215
Total	5,246,067	1,814,889

(a) Basically concerns amounts to be processed that derive from the operating flow of the loans and receivables portfolio.

28 Stockholders' equity

a. Capital stock

The capital stock of Banco Votorantim is represented by 103,949,376,612 shares which are fully subscribed and paid up, of which 85,049,489,946 are registered common shares with no par value and 18,899,886,666 are registered preferred shares with no par value.

	Common	Preferred
Number on December 31, 2012	85,049,489,946	18,899,886,666
Number per shareholder		
Votorantim Finanças	42,524,744,974	9,449,943,332
Banco do Brasil	42,524,744,972	9,449,943,334
Percentage per shareholder		
Votorantim Finanças	50.00000001%	49.99999995%
Banco do Brasil	49.99999999%	50.00000005%
Others	0.00000000%	0.00000000%

According to the Special Shareholders' Meeting held on June 27, 2012, it was resolved and approved to increase the capital stock in the amount of R$2,000,000, through the issuance of 22,410,553,662 new totally subscribed and paid-in shares. The increase of Capital was ratified by the BACEN (Central Bank of Brazil) on June 29, 2012.

b. Breakdown of the Reserves

	2012	2011
Capital reserves	302,046	585,104
Profit reserves	-	1,383,063
Legal reserve	-	421,612
Reserve for expansion	-	961,451
Total reserves	302,046	1,968,167

Legal reserve

Compulsory requirement in the amount of 5% of the period's net income up to a maximum of 20% of share capital. The legal reserve may cease to be accrued when, added to the amount of capital reserves, they exceed 30% of capital stock. The legal reserve may only be used for the increase of capital or to offset losses.

c. Reconciliation of Stockholders' Equity and Net Income between BR GAAP (Brazilian Generally Accepted Accounting Practices) and IFRS

	2012		2011	
	Stockholders' equity	Net result	Stockholders' equity	Net result
Balance in BR GAAP	8,210,437	(1,987,773)	7,823,994	(187,446)
Revenues associated with funding	-	-	-	93,647
Assignment of credits with co-liability, net of tax effects	(411,878)	508,592	(920,469)	(251,939)
Assignment of credit with substantial retention of risks, net of the tax effects	(3,337)	78,748	(82,085)	(62,609)
Provision for losses due to impairment, net of tax effects	(110,911)	(280,688)	169,776	(18,862)
Usufruct of shares, net of the tax effects	28,921	(22,593)	51,514	51,514
Impairment of financial assets available for sale	-	55,797	-	(81,861)
Appropriation of discount – Credit transactions, net of the tax effects	(91,902)	(49,549)	(42,353)	(42,353)
Other adjustments, net of tax effects	14,693	31,345	13,035	(4,912)
Balance in IFRS	7,636,023	(1,666,121)	7,013,412	(504,821)

Summary of the main differences between BR GAAP (BACEN) and IFRS:

Revenues associated with funding – In BR GAAP the premium received in fiscal years 2007 and 2006, in a total amount of R$ 500,000, provided for in the deed of the 3rd issue of debentures of controlled subsidiary BV Leasing, was recorded in capital reserve, as provided in Article 182 Paragraph One - item c, of Law No. 6,404/76 (legislation that was effective on the date of issuance of the debentures). In IFRS the premium is recognized in the course of the expectation of effectiveness of the funding.

Assignment of credits – In the course of its activities the Conglomerate carries out transactions that result in the transfer of financial assets to third parties and to funds that invest in credit rights, in which the conglomerate holds the majority of the subordinated units, where the credit risks of such transactions are substantially retained. Up to December 31, 2011, in BR GAAP the assignment of credit transactions was booked through recognition of the result at the moment of conduction of the assignment, irrespective of whether or not the risk is retained.

For compliance with the IFRS standards, when there is assignment of financial assets with substantial retention of the risks and benefits related to the transfer assets, the latter remain in the balance sheet of the conglomerate and are recognized in liabilities by association.

Due to the advent of Resolution no. 3533/08 of the BACEN, as from January 1, 2012 the transfers effected follow the same procedure as to accounting treatment, both for IFRS and for BR GAAP, and thus there are no differences of accounting practices for the accounting treatment of the transactions carried out as from this date.

Provision for losses due to impairment - In BR GAAP the provision for doubtful accounts is measured considering an analysis of the risks related to the realization of the credits, in an amount considered sufficient to cover any losses following the rules established by the BACEN (Central Bank). According to these rules, the provisions are accrued as from the granting of the credit, based on the classification of credit risk, on account of the periodic analysis of the quality of the client and of the sectors of activity, and not only upon occurrence of default. In BR GAAP, the provision cannot be less than the minimum required by the rules of the regulator, but an additional provision can be recognized when the minimum provision is considered insufficient. IAS 39 determines that the entity should assess on each base date whether there is objective evidence that the credit transaction or a group of credit transactions is in a situation of loss due to impairment. A credit transaction or a group of credit transactions is in a situation of loss due to impairment if there is objective evidence of reduction due to impairment as a consequence of one or more events that occurred after the initial recognition of the credit transaction (event of loss) and such event or events have an impact on the estimated future cash flow and can be estimated reliably.

Loss due to impairment of financial assets available for sale - Under IAS 39, when a fall in fair value of a financial asset available for sale has been recognized in other comprehensive income and there is objective evidence that the asset may be impaired, the cumulative loss that has been recognized in other comprehensive income is reclassified from shareholders' equity to the result as a reclassification adjustment, even if the financial asset has not been write off. Certain investments in shares of closely held companies that were classified as available for sale had a negative fair value adjustment for more than one year.

During 2012 certain investments were written-off due to the sale of the assets. In the event of write-off, the loss due to reduction of recoverable value that was recorded in BR GAAP is transferred from Stockholders' Equity to Profit and Loss on account of realization of the loss. In IFRS this realization had already been recognized and a positive adjustment was effected in the period for equalization of the accounting practices.

Usufruct of shares – The transactions of usufruct of shares are contracts that confer on the conglomerate the right of receiving dividends of preferred shares of a given company in the market for a given period. The conglomerate disburses an amount with the purpose of obtaining such rights, where the expectation of the cash flow generated corresponds to the total restated amount disbursed by the conglomerate. In other words, the conglomerate will receive the interest applied in the form of dividends of the preferred shares of the company.

The transaction of usufruct of shares has the characteristics of a non-derivative financial asset, with fixed and determinable payments, which are not quoted in an active market.

In BR GAAP these transactions are treated in accounting as financial assets with fixed and variable interest rates and the amount disbursed for the usufruct of the shares has its appropriation in profit and loss on a linear basis, while the amounts deriving from the rights of receiving the dividends are recognized as revenue upon evidence of the right.

Appropriation of discount – The conglomerate effected a transaction on the usual market conditions, which grants to the counterparty, within a given period stipulated in the contract, the right of acquiring all of the risks and benefits of a given financial asset, recorded in the Loans and Receivables line item with a discount on the present value of the financial asset on the date of the transfer. The BR GAAP applied the treatment of the future discount as impairment.

d. Adjustments of carrying amount recognized in stockholders' equity

	2012	2011
Beginning balance	18,395	(53,384)
Financial assets available for sale		
Financial institutions	328,246	19,367
Non-financial institutions	72,436	109,903
Derivative financial instruments - Cash Flow Hedge	5,005	(5,005)
Tax effects	(116,947)	(52,486)
Ending balance	307,135	18,395

29 Interest revenues

	2012	2011
Advances to depositors	95	127
Loans	3,291,170	2,859,719
Discounted trade bills	11,694	10,272
Financing	6,357,019	7,049,297
Export financing	450,003	551,134
Financing in foreign currency	30,154	24,563
Rural financing	51,035	109,876
Real estate financing	47,679	22,669
Rights from loans of shares	-	6
Foreign exchange transactions	126,803	68,833
Leasing	363,456	657,382
Credits for corporate/personal guarantees and other guarantees	191	78
Investments in committed transactions	1,196,690	1,725,267
Investments in interbank deposits	133,199	111,303
Investments in foreign currencies	-	38,878
Assigned credits	2,037,847	2,470,686
Benefits from usufruct rights of shares in non-public companies	32,677	44,298
Others	337,407	823,613
Total	14,467,119	16,568,001

30 Interest expenses

	2012	2011
Committed transactions	(2,999,309)	(4,006,056)
Expenses with assignees	(784,253)	(1,382,693)
Interbank deposits	(276,208)	(183,358)
Term deposits	(1,793,449)	(2,841,357)
Loans in Brazil	(1,321)	(1,317)
Loans Abroad	(355,883)	(409,445)
National Treasury Onlendings	(7,615)	(6,522)
BNDES (National Economic and Social Development Bank) onlendings	(213,418)	(257,262)
FINAME (Government Financing for Machinery and Equipment) onlendings	(107,862)	(152,752)
Obligations with foreign financial institutions	(109,191)	(84,127)
Debentures	(206,004)	(600,870)
Funds of Real Estate Credit Bills	(5,552)	(370)
Funds of Agribusiness Credit Bills	(152,024)	(165,135)
Financial Bills	(1,052,978)	(765,578)
Options box – fixed income strategy	(145,152)	(218,586)
Foreign secutirites and bond obligations	(1,671,734)	(1,541,536)
Others	(36,595)	(32,120)
Total	(9,918,548)	(12,649,084)

31 Results from services and commission fees

	2012	2011
Banking fees	528,772	559,741
Valuation and revaluation of assets received as collateral	170,635	361,104
Administration of investment funds	138,676	125,942
Commissions from placement of securities	80,157	62,031
Brokerage fees from stock exchange transactions	22,206	32,051
Collection revenues	12,748	11,189
Results of commission fees for intermediation of transactions (a)	(488,956)	146,026
Technical / Financial Advisory	(694,794)	(721,025)
Associated costs	(411,314)	(1,263,250)
Court and notary public service fees	(263,352)	(121,162)
Credit card transactions	(22,839)	5,203
Others	(291)	257
Total	(928,352)	(801,893)

(a) The balances concern expenses with commission fees amounting to R$584,732 (R$160,770 in 2011) and revenues from reimbursement of commission fees amounting to R$95,776 (R$306,796 in 2011).

32 Results of financial assets/liabilities at fair value through profit or loss

	2012	2011
Financial assets	3,852,165	3,057,715
Financial liabilities	(444,743)	(98,205)
Loans and receivables	580,766	487,344
Total	3,988,188	3,446,854

33 Results from derivative financial instruments

	2012	2011
Swap contracts	(93,644)	(62,188)
Term contracts	(1,281)	2,521
Forward contracts	(1,774,417)	(1,408,274)
Option contracts	46,167	26,286
NDF contracts	19,078	18,556
Credit derivatives	37,150	40,605
Others	23,398	54,027
Total	(1,743,549)	(1,328,467)

34 Other operational results

	2012	2011
Capital gains	23,626	46,645
Monetary restatement of in-court deposits	30,675	48,120
Provision for contingent liabilities	(473,448)	(103,517)
Civil indemnities	(217,373)	(84,666)
In-court deposits	(5,521)	-
Devaluation of other valuables and assets	(5,194)	-
Others	(87,854)	(357,363)
Total	(735,089)	(450,781)

35 Results of losses due to impairment

	2012	2011
(Accrual) / Reversals of provision for losses	(5,932,196)	(4,211,719)
Recovery of credits written off to loss	252,707	188,232
Total	(5,679,489)	(4,023,487)

36 Personnel expenses

	2012	2011
Professional fees	(18,718)	(26,662)
Benefits	(146,727)	(139,447)
Welfare charges	(185,700)	(184,422)
Earnings	(622,145)	(503,191)
Training	(5,484)	(4,928)
Total	(978,774)	(858,650)

37 Other administrative expenses

	2012	2011
Water, electricity and gas	(5,120)	(5,204)
Rent	(135,561)	(133,605)
Leasing of assets	(3,997)	(4,353)
Communications	(80,454)	(101,454)
Charitable contributions	(8,086)	(2,683)
Maintenance and preservation of assets	(14,201)	(17,183)
Materials	(2,409)	(4,632)
Data processing	(169,204)	(152,250)
Promotions and public relations	(5,711)	(16,222)
Advertising and publicity	(3,350)	(10,211)
Publications	(1,220)	(1,000)
Insurance	(13,352)	(12,161)
Financial system services	(2,227)	(692)
Third party services	(13,385)	(17,274)
Vigilance and security	(3,553)	(5,604)
Transportation	(15,975)	(24,151)
Travel	(10,467)	(34,821)
Specialized technical services	(563)	(27)
Others	(16,252)	(14,021)
Total	(505,087)	(557,548)

38 Depreciation and amortization expenses

	2012	2011
Amortization	(8,134)	(16,736)
Depreciation	(21,309)	(20,466)
Total	(29,443)	(37,202)

39 Tax expenses

	2012	2011
ISS	(50,042)	(65,963)
PIS	(54,460)	(54,262)
COFINS	(335,140)	(314,698)
Others	(73,719)	(145,345)
Total	(513,361)	(580,268)

40 Results from sale of non-current asets held for sale

	2012	2011
Sale of assets	(145,255)	(105,282)
Sale of investments	-	84
Total	(145,255)	(105,198)

41 Income tax and contribution expenses

a. Charges payable on the operations

	2012	2011
Income before income tax and social contribution of the participations	(2,728,202)	(1,228,936)
Charges at the effective nominal rate	1,091,281	491,574
Exclusions/(additions)	(2,380,515)	(604,227)
IR (Income Tax) losses	110,930	(22,680)
CS (Social Contribution) negative base	33,760	19,113
Fair value adjustment of financial assets	(125,180)	(130,938)
Fair value adjustment of derivatives	(257,622)	(253,240)
Fair value adjustment of loans and receivables	279,936	259,469
Profit sharing	40,536	74,064
Provision for losses due to impairment	(1,718,807)	(867,217)
Provisions	(188,145)	(91,043)
Derivatives – Cash system	(182)	(7,525)
Legal obligations	(468,426)	-
Supervenient/Insufficient depreciation	(170,317)	102,204
Results of foreign establishments	-	(43,945)
Permanent additions and tax incentives	174,273	261,988
Others	(91,271)	95,523
Current income taxes and contributions	(1,289,234)	(112,653)

b. Deferred income tax with effects on results

Deferred tax assets	**2012**	**2011**
Additions/(exclusions)		
IR (Income Tax) losses	(110,930)	50,146
CS (Social Contribution) negative base	(33,760)	(2,634)
Fair value adjustment of financial assets	124,519	53,803
Fair value adjustment of derivatives	260,258	103,016
Profit sharing	100,083	-
Legal obligations	468,426	-
Provision for losses due to impairment	1,731,625	867,217
Provisions	191,360	91,043
Derivatives – Cash system	-	(1,600)
Insufficient depreciation	51,095	(268,250)
Others	22,115	4,799
Total	2,804,791	897,540

Deferred tax liabilities	**2012**	**2011**
Additions/(exclusions)		
Fair value adjustment of financial assets	5,158	76,364
Fair value adjustment of derivatives	(2,635)	150,224
Fair value adjustment of loans and receivables	(279,935)	(259,470)
Derivatives – Cash system	182	9,124
Supervenient/Insufficient depreciation	119,222	166,045
Total	(158,008)	142,287

42 Related parties

a. Summary of transactions with related parties

The balances of the asset, liability, revenue and expense transactions involving related parties are the following:

	Banco do Brasil (a)		**Votorantim (b)**		**Subsidiaries**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Assets						
Cash and cash equivalents	34,691	854,187	-	-	-	39,817,150
Financial assets	-	-	-	-	23,042,927	20,299,006
Financial assets with resale agreement	-	-	-	-	36,758,158	-
Loans and receivables	1,161,033	-	(608)	(9,384)	-	-
Derivative financial instruments	3,015	481,643	6,264	9,656	1,067,643	532,630
Other assets	-	-	6	-	-	379

	Banco do Brasil (a)		Votorantim (b)		Subsidiaries	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Liabilities						
Deposits	25,635	267,408	310,587	228,404	575,890	333,247
Financial liabilities at amortized cost	74,997	72,131	359,707	307,281	3,189,889	-
Financial liability associated with transferred assets	9,701,002	16,514,998	-	-	-	-
Securities issued	-	-	6,347	-	-	-
Loans and onlendings	-	1,547,155	-	-	-	-
Derivative financial instruments	154,247	1,064,760	947,902	1,755,141	21,041,020	21,397,652
Other liabilities	-	-	-	-	3,722	508
Revenues						
Interest revenues	927,442	432,627	-	2,811	-	12
Revenues from services and commission fees	129	-	-	-	-	-
Results from financial instruments at fair value	8,016	262,514	-	-	5,389,953	195,482
Derivative financial instruments	-	5,197	885	-	-	6,657,207
Expenses						
Interest expenses	(896,515)	179,489	(11,574)	91,201	(328,496)	(6,786,446)
Expenses from services and commission fees	-	-	-	-	(4,906)	-
Results from financial instruments at fair value	-	-	-	(39)	-	-
Derivative financial instruments	(313,435)	-	-	-	(1,486,908)	-
Other operating expenses	-	-	-	-	-	(11,114)
Other administrative expenses	(6,663)	-	-	-	-	-

(a) Banco do Brasil – comprise the companies that make up the Banco do Brasil Financial Conglomerate, of which Banco do Brasil S.A. is the principal one.

(b) Votorantim – comprise the companies that make up the Votorantim Industrial Conglomerate, of which the principal ones are Votorantim Finanças S.A. and Votorantim Industrial S.A.

Transactions between related parties are carried out using amounts, payment terms and average rates that are usual in the market, as effective on the relevant dates and on an arm's length basis. The transactions between the companies included in the consolidation were eliminated in the consolidated financial statements and also consider the absence of risk.

b. Remuneration of key Management personnel

The Votorantim Conglomerate disbursed the following amounts on account of remuneration for its key Management personnel:

	2012	**2011**
Professional fees	18,592	26,662
Bonuses	98,663	55,568
Welfare charges	35,763	25,080
Total	153,018	107,310

43 Operating segments

An operating segment is a component of the Conglomerate that conducts business activities from which it can obtain revenues and incur expenses, including revenues and expenses related to transactions with other components of the Conglomerate.

The results of the segments include items that are directly attributable to each segment, as well as those that can be allocated on reasonable bases. Non-allocated items comprise mainly corporate assets, head-office expenses and income tax and social contribution assets and liabilities.

The Conglomerate has two segments that are subject to disclosure, as described below, which are the strategic business units of the Conglomerate. The strategic business units of the Conglomerate offer different products and services and are managed separately, as they require different technologies and marketing strategies. The following summary describes the operations in each one of the reportable segments of the Conglomerate:

- **Retail** – Transactions with characteristics of granting direct consumer credit, credit assignments and remuneration of capital;

- **Wholesale -** transactions with characteristics of granting of credit, structured transactions aimed at the non-retail segment. Application in financial assets such as: Securities and bonds, derivative financial instruments, agribusiness financing, revenues from services and administration of third party funds;

Information relative to the results of each reportable segment is included below. The performance is assessed based on the income of the segment before income tax and social contribution:

	2012	
In R$ Millions	**Retail**	**Wholesale**
Financial Revenues and Expenses	2,803	1,777
Provision for losses due to impairment	(4,545)	(546)
Income from services rendered	-	314
Administrative and personnel expenses	(767)	(493)
Tax expenses	(312)	(184)

44 Risk Management

Integrated risks management

The integrated approach for risks management comprises the adoption of instruments that enable consolidation and control of the relevant risks incurred by the Conglomerate. This approach aims to organize the decision process and defining the mechanisms for control of the levels of risk that are acceptable and compatible with the volume of capital available, in line with the business strategy adopted.

The consolidation of the risks comprises all of the relevant exposures that are inherent to the lines of business of the Conglomerate, grouped in the following categories of risks: market, liquidity, credit and operational. This consolidation is effected by means of a structured process that comprises the mapping, assessment and totalizing of the valuables at risk.

The levels of exposure to risks are monitored by means of a structure of limits of risk, which are incorporated with the daily activities of the Conglomerate through an organized process of management and control that attributes functional responsibilities to the areas involved. The involvement of Top Management occurs by the monitoring and implementation of the actions that are necessary for management of the risks.

The financial return is assessed by means of processes that enable monitoring the managerial profitability of the various lines of business, consistently with the budgetary scheduling and in a manner that adheres to the accounting results obtained.

In summary, the Conglomerate adopts the following foundations in the practice of integrated risks management:

- Consolidated vision of risks;
- Compatibility between levels of exposure to risks, authorized limits and intended financial return;
- Functional segregation between areas of business, control of risks, auditing and operational processing;
- Adoption of methodologies for calculation of risks based on market best practice;
- Involvement of Top Management.

Risk management activities

The Conglomerate uses a structured focus to standardize the risk management activities. These activities comprise the following stages:

- Identification of risks and controls;
- Assessment and measurement of risks and controls;
- Analysis of the vulnerabilities of the controls;
- Definition of the level of exposure to risks;
- Implementation of responses to the risks;
- Definition of the performance indicators;
- Monitoring of the history of the indicators; and
- Report on the information for the governance structure.

Policies, norms, manuals and procedures

The risks management process relies on a combination of documents that establishes the principal guideline that must be observed in the risk management activities. The level of detailing of these normative documents is structured on account of the objective of each document and organized in accordance with the hierarchy presented below:

- Corporate Policies: essential principles and guidelines established by the maximum hierarchical level and applied to the entire organization and that guide the other norms, procedures and product and service manuals;

- Norms: rules established to define the activities and the way that the procedures are organized, deepening in the aspects addressed in the corporate policies;

- Procedures**:** operational rules established to describe the activities and the stages of their conduction, detailing the aspects addressed in the norms; and

- Products, Services, Systems and Calculation Modeling Manuals: a set of documents that compile the principal characteristics concerning the structuring of the products, services, systems and calculation methodologies used.

These normative documents are published for internal consultation by the Conglomerate in the Corporate Portal (Intranet), and are revised and updated at least annually, or when there are significant changes in the objectives and strategies of the business or significant changes in the focus and in the methodology for risk management.

Management and risk control committees

The Conglomerate has a Corporate Governance structure that establishes collegiate forums that are organized formally and with delegation of authorities, for the monitoring and for taking the decisions on the various aspects that are inherent to the management and control of the Conglomerate for matters related to risk management.

The governance is organized in two supplementary levels of authority: the first consists of the Board of Directors and its Advisory Committees, and involves the shareholders; the second consists of the Executive Committee and its Committees, Commissions and Operational Sub-Commissions and involves the executive leaderships of the Conglomerate.

The Committees, Commissions and Sub-Commissions are formally established in internal normative documents that establish their relevant objectives and attributions, composition and voting members, as well as the rules for resolutions.

The obligations of the Board of Directors are formalized in the Bylaws of Conglomerado Votorantim S.A.

The structuring of these collegiate forums is based on the following hierarchy:

- Committees: decision forums having a macro scope that ratify the decisions established in the commissions. They consist of the president, vice-presidents and executive officers of the areas involved;

- Commissions: forums for analysis of a given group of matters and for ratification of the decisions of the sub-commissions, reporting to the relevant committee. They consist of the executive officers, superintendents and managers of the areas involved;

- Sub-commissions: forums for treatment of matters that are particularly technical and that report to the relevant commissions. They consist of the executive officers, superintendents and managers of the areas involved.

In this context, the risks management of the Conglomerate is conducted by collegiate decisions, based on the various commissions and committees, according to their attributions. This process has the participation of all of the deciding instances of Corporate Governance, which comprise right from Top Management to the various business, operational, product and service areas. The forums involved in risk management are detailed below:

Board of Directors

- Attributions: among other responsibilities recorded in the Bylaws, principally approval of the development of new businesses, approval of policies for granting credit and of market risk, as well as assessment of certain transactions on account of their nature and of the financial amount involved;

- Periodicity: monthly.

Advisory committee - finance

- Attributions: technical advisory to the Board of Directors and support through prior study of any matters that the latter may deem necessary;

- Periodicity: monthly.

Products and marketing committee

- Attributions: technical advisory to the Board of Directors on matters relative to products and marketing, including the business plan, strategies and new business opportunities;

- Periodicity: quarterly.

Auditing committee

- Attributions: approval of the annual planning and monitoring of the internal auditing tasks, of assessment of the adherence to the internal normative documents and to the legal provisions, of verification of the integrity of the financial statements and of the effectiveness of the risk management activities, as well as monitoring of the tasks carried out by the independent auditors;

- Periodicity: monthly.

Executive committee

- Attributions: monitoring of the general performance of the Conglomerate, of the market context and of themes addressed in the committees and operational commissions, as well as resolution on matters that require participation by Top Management;

- Periodicity: weekly.

ALM (Asset Liability Management), risks and capital committee

- Attributions: forwarding to the Board of Directors and to the Executive Committee of proposals relative to management and control of risks and management of capital, assessment of strategic transactions that could generate relevant impacts on the consumption or on the capital base, analysis of proposals of limits, targets and optimum structure for management of the capital, management of a safety reserve to ensure that the capital is held at adequate regulatory levels, as well as analysis and ratification of the decisions of the subordinated Commissions (Market Risk, Liquidity Risk, Credit Risk, Operational Risk, Capital and Banking Management);

- Periodicity: fortnightly

Credit risk commission

- Attributions: definition of the level of provisioning of the credit transactions in the light of default, definition of the strategies and policies for the transactions and the credit portfolio, approval of the methodologies for measuring the credit risk and for establishing provisions for doubtful accounts, establishment and monitoring of the limits of credit risk at levels agreed with Top Management, definition of the structure of the Committees and of the limits of authority for approval of credit limits, allocation of the economical capital with the risks incurred, coordination of stress tests of the portfolios, proposals of changes in the portfolio of allocation of credit risks.

- Periodicity: quarterly.

Operational risk commission

- Attributions: analysis and validation of actions for correction of weaknesses or for enhancement of the risks management system, monitoring of the processes related to the management of operational risk and of internal controls, of prevention of money laundering and of the plans for continuity of the business and monitoring of the implementation of the improvements action plans;

- Periodicity: monthly.

Market risk commission

- Attributions: assessment of exposures to market risks and monitoring of limits of exposure to the principal market risks of the trading portfolio;

- Periodicity: monthly.

Sub-commission for pricing of assets

- Attributions: technical assessment of methodologies for construction of interest curves, mark-to-market and of mark-to-products model, resolution on the pricing models and on the standardization of the calculations and methodologies adopted;

- Periodicity: minimum monthly;

- Subordinated to the Market Risk Commission.

Scenarios sub-commission

- Attributions: creation and updating of macro-economic scenarios for market risk and for purposes of operational limits and allocation of the capital, assessment of the theoretical and empiric consistency of the assumptions adopted;

- Periodicity: monthly or special;

- Subordinated to the Market Risk Commission.

Capital management commission

- Attributions: definition of strategies for management, monitoring and control of capital, analysis of the capital simulations and projections, proposal of limits and of capital contingency plans and planning of capital targets;

- Periodicity: monthly.

Liquidity commission

- Attributions: assessment of exposures to liquidity risks and of the scenarios of cash management, monitoring and revision of the minimum cash limits, as well as monitoring and updating of the contingency plan for funding;

- Periodicity: fortnightly.

Banking commission

- Attributions: assessment of the balance sheet structure, resolution on strategies, definition and monitoring of metrics related to the interest rates risk and proposal of limits for the portfolios;

- Periodicity: fortnightly.

Products committee

- Attributions: assessment and approval for development of new products, monitoring of the implementation of new products, monitoring of the implementation of enhancements and maintenance of the existing products;

- Periodicity: weekly.

a. Market Risk

It is an objective of the control of market risk to support the management of the business to establish the processes and to implement the tools that are necessary for assessment and control of the market risks, enabling the measuring and monitoring of the levels of tolerance to risk defined by Top Management.

Definitions

Market risk is defined as the possibility of financial losses resulting from fluctuations in market values of positions held by the Conglomerate. These financial losses can be incurred on account of the impact generated by the variance of the interest rates, of the foreign exchange parities, of the prices of stock and of commodities.

The leading tool used for measuring the market risks is the VaR (Value at Risk).

Basic principles

The basic principles that are observed by the Conglomerate in the management and control of market risks are in compliance with Resolution no. 3464 of the National Monetary Council (local acronym CMN) and with market best practice:

- Involvement of Top Management: the existing committees and commissions are structured with the purpose of involving Top Management in the overall supervision of the acceptance of risks;

- Segregation of portfolios: for purposes of the consolidated management and control of the market risk of the exposures, the transactions are segregated into two types of portfolios, depending on the business strategy: trading portfolio or non-trading (banking) portfolio;

- Independence of functions: the segregation of functions between the areas responsible for execution of the transactions and the definition of the business strategies and the areas responsible for their bookkeeping, for the control of risks, compliance internal controls and auditing, are structured with the purpose of ensuring independence and autonomy in the conduction of the attributions that are inherent to each function;

- Definition of attributions: the clear definition of the processes and of the array of activities of each function involved in the management and control of market risks is structured with the objective of enabling an organized and efficient operational management;

- Definition of methodologies for pricing and calculation of risks: for purposes of control of risks, structured methodologies are adopted for mandatory corporate use, based on market best practice;

- Establishment of limits: the clear and objective definition of the authorized limits of risk, based on the risk measurements, is structured with the purpose of inserting in the daily activities the levels of tolerance of risk defined by the institution;

- Monitoring of risks: definition of the process for monitoring and reporting of the level of use of the authorized limits.

Areas involved

The functions of market risk management comprise a combination of functional activities that permeate the entire chain of business, right from the development of products, to the negotiation of transactions, to the modeling and control of market risk and of the results and the formalization, accounting and settlement of transactions, as well as monitoring of the effectiveness of the processes and controls used.

These functions are carried out by formally-appointed functional units that have technically capable teams, under segregated management, and with clearly defined attributions, as shown below:

Control of market risk

- Responsible for the methodologies and modeling of the pricing and of the calculation of market risk, as well as for independent capture of the prices used;

- Responsible for the assessment of the values at risk and of the capital allocated, as well as for monitoring the authorized limits.

Treasury

- Responsible for carrying out the trading of transactions in the market, always seeking a fair price and the conformity of the transactions;

- Responsible for observing the market opportunities and trends, for management of the exposures at risk, with observance of the defined strategies and of the authorized limits;

Operations

- Responsible for the independent confirmation, for the formalization, for the record and accounting, for the settlement of transactions and for the assurance of comprehensiveness, consistency, integrity and reliability of the databases.

Measures and limits of risk for management and control

The Conglomerate adopts a combination of objective measures for management and control of market risks:

- VaR (Value at Risk): comprises the assessment, based on statistical techniques, of the maximum loss in market value, in normal conditions, of a given position or portfolio, given the statistical level of confidence within a given horizon of time;

- Stress scenarios: comprise simulations on the impact on the positions or portfolios, deriving from extreme market conditions, that could give rise to extraordinary losses or gains;

- Market Risk Regulatory Capital: comprises the regulatory capital assessed as a result of the exposures of the trading and non-trading portfolios;

- Sensibility Analyses: comprise simulations of sensitivity in the results of the portfolios on account of the alteration of positions and/or minor fluctuations in the market conditions; and

- Positions and Portfolios: comprise the monitoring of the volume of gross or net exposures.

The measures of risk are used together with the limits for market risk management. These limits comprise the definition of the maximum amounts authorized, in adherence to the strategies adopted, to the array of transactions and products with authorized trading and in consistence with the budgetary assumptions and targets.

There are two types of limits, according to the limit of authority for decision:

- Superior Limits: maximum limits authorized at the level of authority of the Board of Directors;

- Operational Limits: internal limits authorized at the level of authority of the ALM, Risks and Capital Committee, and of the Market Risk Commission, always with observance of the Superior limits.

The establishment of limits has as a base the appetite for risk and is defined in a way that can enable in a pragmatic way the fulfillment of the intended financial performance targets. The limits and the targets are made to be compatible at the time of budgetary planning.

The amounts established for the limits are updated and revised with minimum annual periodicity, together with the budgetary planning.

Segregation of portfolios

For purposes of the consolidated management and control of the market risk of the exposures, the transactions are segregated into two types of portfolios, depending on the business strategy: trading portfolio or non-trading (banking) portfolio.

The trading portfolio encompasses all of the transactions, financial instruments, commodities or derivatives held with the intention of trading, or turnover, or allocated for hedging of other transactions that make up the trading portfolio and that are not subject to limitation of their tradability.

The principal mechanisms adopted by the Conglomerate for segregation of the portfolios are:

- the segregation of the transactions is made based on the intention of the business strategies, captured at the moment at the trading, reflecting the pro-active management of the treasury, and can be classified as being of trading or of non-trading;

- conditions for classification of the trading: intention of trading in the short term, which require liquidity, are marked-to-market daily and must observe fulfillment of the periods of turnover and of the defined periods for turnover and charging; and

- composition of the non-trading portfolio: includes other transactions, financial instruments, commodities or derivatives that by exclusion are not held with the exclusive intention of trading in the short term.

Trading Portfolio – Methodology for Measurement of Risk

The trading portfolio consists of the transactions that the Bank possesses and that are available for trading.

For the measurement of the risk of the trading portfolio the Bank adopts the methodology of VaR by Historical Simulation, with a Level of Confidence of 99% and a window of 252 returns, considering a holding period of 10 business days.

The table below presents the minimum, average and maximum VaR of the trading portfolio.

Period	**Minimum**	**Average**	**Maximum**
January to December/ 2012	8,573	42,658	115,210
July to December/ 2011	24,930	80,556	228,981

Non-Trading Portfolio – Methodology for Measurement of Risk

The non-trading portfolio consists of the structural exposures deriving from the granting and maintenance of the credit transactions per se, and of the funding for such credit transactions, irrespective of the terms and currencies of the transactions or of their commercial segmentations (retail, middle or corporate). Also considered in the non-trading portfolio are the transactions intended for hedging the Equity or the credit or funding transactions for the non-trading portfolio.

This portfolio is also known as a structural portfolio, as it comprises the structural management of the mismatches between assets and liabilities.

For the measurement of the risk of the non-trading portfolio the Bank adopts the methodology of VaR by Historical Simulation, with a Level of Confidence of 99% and a window of 1260 returns, considering a holding period of 10 business days. The methodology adopts the precepts established by the Central Bank of Brazil (BACEN), through Circular no. 3365, of September 12, 2007.

The Conglomerate uses conservative assumptions for early settlement of loans and deposits that do not have a defined maturity:

- for the case of loans the final date of settlement of the agreement is assumed, and there is no statistical modeling to establish the scenarios of early receipt of the amounts owed;

- for the case of deposits with daily liquidity, as is the case of committed funding transactions, carried out by means of commitments of repurchase, one assumes the date as of which the settlement is possible (early settlement); and

- for the case of demand deposits, the positions of which are not materially relevant, one assumes the first subsequent day to the base date of calculation for its maturity.

The table below presents the minimum, average and maximum VaR of the consolidated portfolio.

Period	**Minimum**	**Average**	**Maximum**
January to December/ 2012	383,670	492,488	593,157
July to December/ 2011	218,737	333,597	508,866

Systems of measurement and communication process

The Conglomerate adopts corporate systems for measurement and control of market risks, combining applications developed internally with market solutions of attested robustness. These systems comprise the integrated treatment of information, in a sequential form:

- the capture of prices and curves of independent market sources, reflecting parameters of the conditions effectively practiced for trading;
- the capture of the registration of the transactions negotiated and of their record data;
- the updating and the continual filing of such information in structured databases, with monitoring of their accounting integrity and consistency;
- the assessment of the values to market of positions for accounting purposes, of the managerial monitoring of positions and of the accomplished financial performance; and
- the calculation of the values at risk, following the VaR methodology.

Supplementarily the Conglomerate adopts a structured process for communication of the matters related to the management of market risks. This process of communication comprises:

- the periodic issuance of objective reports in which the exposures are presented and the levels of utilization of authorized limits are demonstrated;
- the periodic holding of collegiate forums for monitoring, with observance of the levels of authority for decisions in which the matters in question are debated in a participative form; and
- the issuance of specific electronic messages for reporting and monitoring of occurrences of extrapolation of limits or of inadequate transactions, for which the positions and the managers responsible are identified.

Communication of extrapolation of limits and inadequate transactions

The procedure adopted for monitoring limits or for identifying inadequate transactions comprises to stages: (i) of communication and (ii) of re-adequacy.

Communication:

- For the communication standard messages are used of Alert of Utilization, designating pre-established levels of triggering in the utilization of limits, and of Extrapolation of Limit, designating the occurrence of exposures that are greater than the authorized risk, which are sent by electronic means.

Re-adequacy:

- Any extrapolation of limits or inadequacy of transactions mandatorily implies the application of negotiation strategies for re-adequacy to the authorized limits and reduction of the amounts utilized.

- These strategies are responsibilities of the business managers, considering the market conditions and are observed in the subsequent Market Risk Commission.

Hedge policies and strategies

The hedge transactions have the purpose of neutralizing, either totally or in part, the market and/or credit risks applicable to the trading and non-trading exposures, observing the defined strategies and the established level of tolerance of risk. In the case of the non-trading portfolio, the Conglomerate adopts policies and strategies for the trading of hedge transactions with the purpose of mitigating the book-entry and structural market risks of the balance sheet. The book-entry exposure of the balance sheet comprises the management and control of the accounting impacts deriving from the intrinsic nature of transactions, products, portfolios, or of the fluctuation of the parity of conversion of investments or equity participations and the structural market exposure comprises the management and control of the economic impacts deriving from the market risk applicable to the non-trading portfolio.

For such purpose financial instruments, commodities or derivatives are traded with the purpose of neutralizing, either wholly or in part, the market risks applicable to the exposures, with observance of the defined strategies and of the established level of tolerance of risk.

Any and all financial instruments, commodities or derivatives may be considered and used as an instrument of hedge, provided that they characterize products the trading of which has been authorized in advance and that have an expected financial performance that meets the objectives intended with the strategy of mitigation of market risks.

These products can be standardized, traded via settlement chambers, or non-standardized, traded in the over the counter market. The Conglomerate permits the use of one or more instruments for carrying out the hedge, or proportionality thereof, keeping in mind the risks to be covered.

For the case of carrying out a hedge by means of trading with derivatives, the Conglomerate can use a duration strategy, of hedging of cash flow, of decomposition of the risks factors in the vertices that show liquidity, or any other specific strategy, always taking into consideration the dynamics of formation of the price of the instrument and of the strategies specifically selected, so that its market liquidity can be verified and, thus, assurance of the practice of the fair price and its representation throughout the useful life of the hedge strategy.

Sensibility Analyses

Banco Votorantim uses two methodologies of analysis of sensitivity of its exposures.

Analysis 1 – Initially it uses as a method the application of parallel shocks at the curves of the most relevant risk factors. This method has the purpose of simulating the effects on the results of the Conglomerate in the light of any scenarios that consider possible fluctuations in the interest rates practiced in the market. For purposes of simulation, two possible scenarios are considered, in which the risk factor analyzed would incur and increase or a reduction in the order of 100 base points.

Analysis 2 – Simulations are conducted that measure the effect of the movements of the market curves and of the prices on the exposures held by the Conglomerate, having the purpose of simulating the effects on the results in the light of three specific scenarios, as presented below:

- Scenario 1 – Consists of the probable market scenario for the risk factors, in the conception of the institution.
- Scenario 2 - scenario with a 25% shock on the probable market scenario (Scenario 1) according to an internal norm for the pricing of assets and economic analysis, which is consistent with best market practices.
- Scenario 3 - scenario with a 50% shock on the probable market scenario (Scenario 1) according to an internal norm for the pricing of assets and economic analysis, which is consistent with best market practices.

In relation to the effects of the application of the method on the Bank's portfolios, we present two distinct situations:

i. For the transactions classified in the Trading portfolio, consisting of transactions with the intention of trading, the possible effected of the movements in the interest rates and prices practiced in the market generate a direct impact on the results of the Conglomerate; and

ii. For transactions classified in the Non-Trading Portfolio, appreciation or depreciation resulting from changes of interest rates and prices practiced in the market do not represent a significant financial and account impact on the results of the Conglomerate. This is because this portfolio consists mainly of credit transactions (direct consumer credit, agribusiness, working capital, etc.), retail funding (demand, term and savings deposits) and securities and bonds, which are recorded in accounting mainly at the rates covenanted upon contracting the transactions. Additionally one stresses the fact that these portfolios present as principal characteristics the accounting classification of available for sale and, thus, the effects of the fluctuations of interest rates or prices are reflected in Stockholders' Equity and not in the results. There are also transactions that are naturally pegged to other instruments (natural hedge), thereby minimizing the impacts in a scenario of stress.

The tables below show a summary of the results for the Trading Portfolio, consisting of government and private instruments, derivative financial instruments and funding obtained through committed transactions, and for the Non-Trading Portfolio, presenting the amounts observed on each base date:

Sensibility Analyses 1 – Trading Portfolio

		Basic interest rate hike			
		2012		2011	
Risk Factor	**Concept**	**+ 100 bps**	**- 100 bps**	**+ 100 bps**	**- 100 bps**
Prefixed Rate	Risk of variance of the prefixed interest rates	(2,679)	2,673	(44,468)	46,158
Foreign currency coupons	Risk of variance of foreign exchange coupons	(99)	89	(18,249)	21,422
Foreign exchange variance	Risk of variance of the foreign exchange rates	-	-	-	-
Price indices	Risk of variance of price indices coupons	228	(222)	726	(709)
TR/TBF (Referential Rate/Basic Financial Rate)	Risk of variance of TR and TBF coupons	-	-	-	-
Others	Risk of variance of other coupons	-	-	-	-

Sensibility Analyses 1 – Trading and Non-trading Portfolio

		Basic interest rate hike			
		2012		2011	
Risk Factor	**Concept**	**+ 100 bps**	**- 100 bps**	**+ 100 bps**	**- 100 bps**
Prefixed Rate	Risk of variance of the prefixed interest rates	(41,564)	41,739	(432,265)	448,240
Foreign currency coupons	Risk of variance of foreign exchange coupons	2,335	(2,342)	(32,183)	38,067
Foreign exchange variance	Risk of variance of the foreign exchange rates	-	-	-	-
Price indices	Risk of variance of price indices coupons	(714)	723	6,085	(5,478)
TR/TBF (Referential Rate/Basic Financial Rate)	Risk of variance of TR and TBF coupons	1,614	(1,623)	11,425	(11,792)
Others	Risk of variance of other coupons	-	-	-	-

Sensibility Analyses 2 – Trading Portfolio

		Scenario I			
		2012		2011	
Risk Factor	**Concept**	**Rates Variance**	**Result**	**Rates Variance**	**Result**
Prefixed Rate	Risk of variance of the prefixed interest rates	Reduction	17,016	Reduction	33,363
Foreign currency coupons	Risk of variance of foreign exchange coupons	Maintenance	-	Maintenance	-
Foreign exchange variance	Risk of variance of the foreign exchange rates	Reduction	7,971	Increase	2,791
Price indices	Risk of variance of price indices coupons	Increase	2,355	Increase	260
Others	Risk of variance of other coupons	Maintenance	-	Reduction	(975)

Scenario II

		2012		2011	
Risk Factor	**Concept**	**Rates Variance**	**Result**	**Rates Variance**	**Result**
Prefixed Rate	Risk of variance of the prefixed interest rates	Increase	(26,562)	Increase	(75,889)
Foreign currency coupons	Risk of variance of foreign exchange coupons	Increase	(5,659)	Increase	(1,845)
Foreign exchange variance	Risk of variance of the foreign exchange rates	Increase	(232,197)	Increase	(182,305)
Price indices	Risk of variance of price indices coupons	Reduction	1,110	Reduction	(631)
Others	Risk of variance of other coupons	Increase	(25,462)	Increase	(26,408)

Scenario III

		2012		2011	
Risk Factor	**Concept**	**Rates Variance**	**Result**	**Rates Variance**	**Result**
Prefixed Rate	Risk of variance of the prefixed interest rates	Increase	(71,157)	Increase	(175,389)
Foreign currency coupons	Risk of variance of foreign exchange coupons	Increase	(11,036)	Increase	(3,626)
Foreign exchange variance	Risk of variance of the foreign exchange rates	Increase	(490,294)	Increase	(857,311)
Price indices	Risk of variance of price indices coupons	Reduction	(19)	Reduction	(1,482)
Others	Risk of variance of other coupons	Reduction	(55,244)	Increase	(94,304)

Sensibility Analyses 2 - Trading and Non-trading Portfolio

Scenario I

		2012		2011	
Risk Factor	**Concept**	**Rates Variance**	**Result**	**Rates Variance**	**Result**
Prefixed Rate	Risk of variance of the prefixed interest rates	Reduction	268,574	Reduction	377,871
Foreign currency coupons	Risk of variance of foreign exchange coupons	Maintenance	-	Increase	(8,087)
Foreign exchange variance	Risk of variance of the foreign exchange rates	Reduction	(3,405)	Increase	4,380
TJLP (Long-Term Interest Rate)	Risk of variance of TJLP coupons	Maintenance	-	Maintenance	-
TR/TBF (Referential Rate/Basic Financial Rate)	Risk of variance of TR and TBF coupons	Maintenance	-	Maintenance	-
Price indices	Risk of variance of price indices coupons	Maintenance	(8,355)	Increase	2,509

Scenario II

		2012		2011	
Risk Factor	**Concept**	**Rates Variance**	**Result**	**Rates Variance**	**Result**
Prefixed Rate	Risk of variance of the prefixed interest rates	Increase	(399,452)	Increase	(863,263)
Foreign currency coupons	Risk of variance of foreign exchange coupons	Increase	(9,791)	Increase	(33,678)
Foreign exchange variance	Risk of variance of the foreign exchange rates	Reduction	(130,956)	Increase	(192,363)
TJLP (Long-Term Interest Rate)	Risk of variance of TJLP coupons	Reduction	(7,228)	Reduction	(3,975)
TR/TBF (Referential Rate/Basic Financial Rate)	Risk of variance of TR and TBF coupons	Reduction	(77)	Reduction	(1,211)
Price indices	Risk of variance of price indices coupons	Increase	(11,158)	Reduction	(5,298)

Scenario III

		2012		2011	
Risk Factor	**Concept**	**Rates Variance**	**Result**	**Rates Variance**	**Result**
Prefixed Rate	Risk of variance of the prefixed interest rates	Increase	(1,024,921)	Increase	(2,006,273)
Foreign currency coupons	Risk of variance of foreign exchange coupons	Increase	(19,100)	Increase	(58,480)
Foreign exchange variance	Risk of variance of the foreign exchange rates	Reduction	(266,203)	Increase	(883,107)
TJLP (Long-Term Interest Rate)	Risk of variance of TJLP coupons	Reduction	(14,633)	Reduction	(8,199)
TR/TBF (Referential Rate/Basic Financial Rate)	Risk of variance of TR and TBF coupons	Reduction	(154)	Reduction	(2,413)
Price indices	Risk of variance of price indices coupons	Increase	(13,787)	Reduction	(11,760)

Stress Tests

The Bank uses stress metrics that result from simulations of its exposures subject to market risks under extreme conditions, such as financial crises and economic shocks. These tests aim at measuring the impacts of plausible events, but that have a low probability of occurring.

The program of stress tests of market risk of the Conglomerate uses assessment methods that are based on:

- Retrospective Tests; and
- Prospective Tests.

Retrospective Tests

The retrospective stress test estimates the variance of the exposures of the consolidated portfolio of the Bank, through the application of shocks on the risk factors equivalent to those recorded in historical periods of stress of the market, considering the following parameters:

- Extension of the historical series for determination of the scenarios: 2004 up to the reference base date;
- Period of maintenance: accumulated returns of 10 business days;
- Periodicity of the test: daily.

The results of the retrospective stress tests aim at assessing the capacity of absorption of major losses and identifying any measures for reduction of the risks of the institution. The amounts shown in the tables represent the greatest losses and the greatest gains in the Consolidated Portfolio among all of the scenarios of the historical series used in the simulation.

Below are the results of the retrospective stress test of the consolidated portfolio in accordance with the market risk stress test program of the Conglomerate.

Estimates of greatest losses of the retrospective stress test – Consolidated Portfolio

	2012		2011	
Risk Factor	**Exposure**	**Stress**	**Exposure**	**Stress**
Shares	29,739	(26,659)	38,060	(12,871)
Commodities	(9,457)	(322)	7,421	(462)
Foreign currencies	(634,265)	(3,414)	347,204	(171,242)
Interest rate	17,087,953	(1,515,240)	25,719,378	(87,199)
Total	16,473,970	(1,545,635)	26,112,063	(271,774)

Estimates of greatest gains of the retrospective stress test – Consolidated Portfolio

	2012		2011	
Risk Factor	**Exposure**	**Stress**	**Exposure**	**Stress**
Shares	29,739	4,662	38,060	-
Commodities	(9,457)	322	7,421	508
Foreign currencies	(634,265)	-	347,204	-
Interest rate	17,087,953	855,023	25,719,378	88,666
Total	16,473,970	860,007	26,112,063	89,174

Prospective Tests

The prospective stress test estimates the variances of the exposures of the consolidated portfolio of the Conglomerate, through the application of shocks on the risks factors, estimated by using stress scenarios generated by the Scenarios Sub-Commission, considering the following parameters:

- Result of the pessimistic scenario and result of the optimistic scenario;
- Extension of the series: prospection for accumulated returns of 10 business days;
- Periodicity of the test: daily.

The prospective stress tests aim at simulating adversities based on characteristics of the portfolio of the institution and of the macro-economic environment, under severe and plausible conditions.

Below are the results of the prospective stress test for the consolidated portfolio in accordance with the program of market risk stress test of the Conglomerate.

Estimates of greatest losses of the prospective stress test – Consolidated Portfolio

	2012		2011	
Risk Factor	**Exposure**	**Stress**	**Exposure**	**Stress**
Shares	29,739	(12,317)	38,060	(5,800)
Commodities	(9,457)	(322)	7,421	(462)
Foreign currencies	(634,265)	(83,739)	347,204	(78,240)
Interest rate	17,087,953	(747,502)	25,719,378	(79,250)
Total	16,473,970	(843,880)	26,112,063	(163,752)

Estimates of greatest gains of the prospective stress test – Consolidated Portfolio

	2012		2011	
Risk Factor	**Exposure**	**Stress**	**Exposure**	**Stress**
Shares	29,739	-	38,060	-
Commodities	(9,457)	322	7,421	508
Foreign currencies	(634,265)	1,338	347,204	-
Interest rate	17,087,953	625,449	25,719,378	66,937
Total	16,473,970	627,109	26,112,063	67,445

b. Operating Risk

The management of the operation risk has the purpose of providing support to the management of the businesses by means of assessment and control of the risk, of the funding and management of the base of operational losses and of the measurement of the capital allocated for operational risk, enabling the prioritization and implementation of plans for enhancement of processes, according to the levels of tolerance to risk defined by Top Management.

Definitions

Operational risk is defined as the risk of loss resulting from failure, deficiency of inadequacy of internal processes, people and systems or from events that are external to the institution – it includes the Legal Risk, but excludes the Strategic Risk and the Risk of Image.

Basic principles

The basic principles observed by the Conglomerate in the management and control of operational risk are in compliance with Resolution no. 3380 of the CMN and with the market best practice:

- Involvement of Top Management in the overall supervision of the risk-taking through the established committees and commissions;

- Mapping of the operational and systemic processes, mapping of the existing controls and analysis of the inherent and residual risks;

- Assessment of the potential financial impact and of the possibility of occurrence of the mapped risks. Using this assessment one defines the exposure to the operational risk, according to the standardized risk matrix for the entire Conglomerate;

- Capture of operational losses and maintenance of a structure database with information relative to the events;

- Analysis, communication and implementation of action plans for enhancement of processes and controls for mitigation of the risks incurred; and

- Calculation of the capital allocated to operational risk using structured methodologies, based on market best practice and that are adequate in relation to the regulatory requirements.

Areas involved

The operational risk management functions are carried out by segregated functional units, which are formally created, consisting of skilled teams that have clearly defined attributions, as shown below:

Internal controls area

- Responsible for the mapping and assessment of risks and controls, monitoring of the action plans for unacceptable risks and control deficiencies;

- Responsible for the updating and periodic revision of the policies, procedures and communication plans related to the internal controls activities.

Operational risk area

- Responsible for the management and maintenance of the database of operational losses, monitoring of the action plans for relevant losses, definition of methodologies and tools for the structuring of operational risk indicators, construction of scenarios and calculation of the capital allocated to operational risk;

- Responsible for the updating and periodic revision of the policies, procedures and communication plans related to the activities of management and measurement of the operational risk.

Managers and collaborators

- Responsible for the management of the operational risks existing in their activities and processes, for the implementation of controls and definition of indicators for monitoring the risks and action plans for their mitigation;

- Responsible for prompt communication of the occurrences related to operational risk

System of measurement and communication process

The measurement of the exposure to operational risk is conducted by means of application of a questionnaire for the managers of the processes. The questionnaire consists of quantitative and qualitative assessments of the potential financial impact (severity) and of the possibility of materialization of the risk (probability). Using these assessments one defines the exposure to the operational risk, according to the standardized risk matrix for the entire organization, where the risks are characterized as Low, Medium, High or Extreme, according to criteria approved by the Operational Risk Commissions.

The process of communication assures that the mapped and classified risks are submitted to validation by the managers of the processes, for definition of the adequate treatment: avoid, accept, reduce or transfer the risk.

After such validation the mapping of risks and controls is submitted to approval by the Operational Risk Commission, which has autonomy to revise the treatment given to the risk by the manager and propose new mitigation actions.

The Operational Risk Area prepares and discloses to Top Management the Annual Operational Risk Report describing the structure of the management of the operational risk, as well as the actions carried out in the current year and those planned for the following year aiming at enhancement of the operational risk management in the Conglomerate.

Management of continuity of business

The Conglomerate relies on a robust technology environment, involving various levels of solutions, among which the following are highlighted:

- Datacenter at the headquarters of the Conglomerate with physical and environmental security certification, in which the application, databank and communication servers are installed;
- Hotsite datacenter, also certified, in an alternative location with duplication of the critical components;
- Storage system in both datacenters, replicated in real time;
- A pool of applications servers and cluster of files servers for the critical processes and systems;
- Tape unit in both datacenters;
- Remote access to the critical applications;
- Access tool to the contingency plans through the Internet;
- Operational Continuity Cell with 171 work positions.

The Management of Continuity model is documented in an internal norm that defines a cycle of continual enhancement by means of four major activities: (i) Planning, in which the continuities strategies are defined; (ii) Development, when the plans and teams that will act in cases of contingency are defined; (iii) Tests, when the plans are assessed and the users are trained; and (iv) Revision, when the plans, assumptions, teams and strategies are revised to ensure effectiveness.

In the course of the recent years periodic revisions and tests were conducted in the Management of Continuity of Businesses that have been demonstrating their robustness and adequacy to the levels of recovery that are necessary for the business.

Methodology for calculation of the portion of the required equity – operational risk (POPR)
Since base date June/10 the portion of the capital allocated to operational risk (POPR) is assessed by means of the Alternative Standardized Approach, which is regulated by Circular no. 3383 of the BACEN.

Through this Approach the capital is calculated by using the average of the last three periods of the Exposure Indicator (IE) and of the Alternative Exposure Indicator (IAE), multiplied by a factor of specific allocation for each line of business. The IE corresponds, for each annual period, to the sum of the six-monthly amounts of the revenues from financial intermediation and the revenues from providing services, after deduction of expenses of financial intermediation. The IAE corresponds, for each annual period, to the arithmetic average of the six-monthly balances of the credit transactions, of financial leasing agreements and from other transactions of characteristics of granting of credit and from the securities and bonds not classified in the trading portfolio, multiplied by the factor of 3.5% determined by the BACEN.

c. Credit Risk
The purpose of the credit risk management is of providing support to Top Management in the decision process, defining strategies and policies, establishing operational limits, mechanisms for mitigation of risk and procedures intended to maintain the exposure to credit risk at levels that are considered acceptable by the management of the institution.

Definitions
Credit risk consists of the possibility of occurrence of losses associated with non-performance by the borrower or the counterparty of its relevant financial obligations on the covenanted terms, as well as devaluation of the credit agreement deriving from deterioration of the risk classification of the borrower, as well as from the reduction of gains or remuneration, from benefits granted in the renegotiation and from costs for recovery.

Basic principles
The basic principles that are observed by the Conglomerate in the management and control of credit risks are in compliance with Resolution no. 3721 of the National Monetary Council (local acronym CMN) and with market best practice:

- Manuals and documents containing the organizational structure, products, corporate policies, norms and procedures containing flows and rules related to the processes of governance, businesses and support to credit;

- An adequate technological environment encompassing the credit cycle with a flow of systems right from the admission, observation and monitoring up to the restructuring of credit;

- A process for validation covering the risks involved in systems, the accuracy of the models for calculation and quality of the data processed, as well as the scope of the documents;
- The structure of committees and levels of authority for approval of credit;
- Criteria and procedures for selection of clients and prevention of money laundering;
- Norms for analysis and granting of credit;
- Procedures for analysis, approval and release of new products having credit risk;
- Classification of the portfolio into levels of risk, weighting the rating of the clients, the guarantees involved, terms and delays of the transactions;
- Classification and analysis of the country risk;
- Monitoring of geographical, sectorial and economic group concentrations, as well as monitoring of the internal and regulatory limits defined within the policies and norms;
- Management of limits and credit risk of counterparties of derivative financial instruments;
- Assessment of the risk in transactions of sale or transfer of assets;
- Formalized procedures contemplating the flow of recovery of credits;
- Establishment of limits for carrying out transactions subject to credit risk, both at an individual and aggregate level – group with a common economic interest – and of borrowers or counterparties with similar characteristics;
- Control of guarantees and instruments of mitigation of credit risk;
- Monitoring of the asset credit portfolio with signs of alert that could influence the operational or financial performance of the clients, minimizing the risk of losses;
- Conduction of stress tests, measuring the combined effect of adverse movements in indicators of economic activity, interest rates, exchange rates and credit indices, estimating financial impacts that are affecting credit policies and criteria;
- Issuance of periodic managerial reports for Top Management, with indicators of the managerial performance of the risk as a result of the policies and strategies adopted; and
- Documented procedures of exceptions to the policy.

Areas involved

The credit risk management functions comprise a combination of strategic, tactical and operational activities that permeate the entire business chain, right from the development of products, to the granting of limits, the portfolio management, the managerial information, the collection and recovery of credit, as well as the monitoring of the effectiveness of the processes and controls used.

The credit risk management functions are performed by units that are created formally, with technically capable teams under segregated management and that have clearly defined attributions.

Credit executive office - wholesale

Granting of credit

The process of granting credit to the client is centralized and based on development of a detailed credit dossier with credit record, operational, economic-financial information and reports on visits to our prospective clients.

The responsibility of the area is of providing consistent support to the approvals of credit limits and/or specific transactions in Resolving Forums; observing, monitoring and periodically revising the approved clients and attributing ratings to the clients, by means of statistical and judgmental models.

Credit management and control

- **Credit management and control:** Responsible for management and support for the areas of Management of Limits, Managerial Credit Information, Portfolio Management, Modeling of Credit and Credit Policies, aiming at results by means of integration of processes, people management and innovative strategies.

- **Credit Solutions:** Responsible for the coordination, jointly with the technology areas, of the demand related to the systemic tools that permeate the entire chain of credit.

- **Managerial Credit Information:** Responsible for the managerial information of the credit risk portfolio for the BACEN, Shareholders, Credit and Finance Executive Offices and the Board of Directors; it assesses the rating of the credit transaction considering the rating of the client, the term, guarantee and monitoring status for accrual of the Provision for Doubtful Accounts (local acronym PDD).

- **Credit Policies:** Responsible for the preparation and revision of the Credit policies and normative rules, ensuring that the new commercial strategies are in accordance with the applicable credit policies. Responsible for the structuring and monitoring of the definitions of the processes and rules that will be documented throughout the Basel II project – Internal Rating Based (IRB).

- **Management of Credit Limits:** Responsible for support to the resolving forums, recording their decisions and effecting electronic approval, and for the monitoring of the credit limits approved by economic group, economic sector and product, avoiding and communicating any non-conformities with the credit policies.

- **Portfolio Management:** Responsible for the monitoring of the credit risk at the portfolio level, with the purpose of providing support to the other areas of the institution in the identification, measurement, control and mitigation of the associated risks.

- **Credit Modeling:** Responsible for the development and implementation of the statistical credit models (Scoring, Rating, Probability of Default (PD), Loss Given Default (LGD), Exposure At Default (EAD), Stress Tests).

- **Monitoring:** Responsible for monitoring all of the clients of the Conglomerate, detecting signs of alert by means of information bureau report (Monitore Serasa), reports on Overdue and Unpaid Transactions (local acronym VNP), analysis of insufficiency of guarantees, analysis of the Average Liquidity Index (local acronym ILM), reports on performance of credit rights, information on indebtedness by the BACEN and market information. These pieces of information are consolidated, automatically generating classifications/status of the clients.

Restructuring and Monitoring

- **Restructuring of Credit:** Responsible for the management and control of the credit in arrears, providing support to the commercial area in the renegotiations, conducting amicable collection and assumption of judicial proceedings, acting as interlocutor and coordinator between the areas involved, as well as analyzing and presenting the proposals for renegotiation to the committee in charge.

- **Management of Guarantees:** Responsible for the management of the portfolio of clients with collateral, analyzing and monitoring the maintenance of the levels of coverage. For the clients with Monitored and Exit from Risk status, or under demand, responsible for analysis of the characteristics and peculiarities of each guarantee, the relevant details defined upon approval of the credit and their actual condition of contracting and formalization.

Credit executive office - retail

Granting of credit
The process for granting of credit for the Retail segment is based on analysis by means of statistical models that make available amounts according to the capability of payment and the quality of the client. The credit proposals are processed by an automated and parameterized system with the purpose of providing indispensable subsidy for taking credit approval decisions.

Credit strategy and modeling

- **Vehicles strategy:** Responsible for studies and analyses of information for definitions of credit strategies for this segment.

- **Credit Modeling:** Responsible for development and implementation of the credit statistical models (Score, Rating, PD, LGD, EAD, Stress Tests).

- **Loans and Cards Strategy:** Responsible for studies and analyses of information for definitions of credit strategies for the products of this segment.

- **Modeling and MIS (Management Information System):** Responsible for development of Statistical Models, such as Credit Score, Behavior Score, Collection Score and Classification of private companies and government bodies, in line with the requirements of the new Basel convention, in addition to monitoring and management of credit portfolio.

Credit transaction

- **Credit transaction:** Analysis of all of the requests for credit produced by means of corporate commercial structures, ensuring that they are treated with adherence to the norms, procedures, to the relevant levels of authority for each transaction, as well as control of the risk exposure of the portfolio.

Credit solutions and infrastructure

- **Processes Solutions:** Responsible for the conceptualization and functional design of internal processes, procedures and routines for granting and management of credit.

- **Technological Environment:** Responsible for the conceptualization and functional specification of the credit systems and technological environment.

Collection

- **Recovery of Credit:** Responsible for the administrative, litigious, mass-oriented collections (products: payroll deduction, cards, personal credit and Direct Consumer Credit [local acronym CDC]).

- **Seizures:** Responsible for the control of seizure, removal, release for auction and documentation.

- **Strategy and MIS:** Responsible for the conceptualization, specification and monitoring of projects for collection, generation and monitoring of reports and collection indicators, as well as definition of policies.

Risk and compliance executive office

Responsible for the monitoring, by means of effective controls, of the maintenance of the exposure to credit risk at levels that are acceptable for the shareholders, and for the conduction of studies and analyses for decision-making by Top Management:

- **Governance:** Member of the credit committees of the units and handling of the required regulatory aspects;

- **Capital:** Responsible for the construction of the models and for conduction of the calculation of regulatory and economic capital;

- **Validation:** Responsible for the validation of credit risk parameters.

Systems of measurement and communication process

In line with market best practice and with the requirements imposed by the new Basel convention (BIS II), the Conglomerate maintains systems that provide support to the credit processes, and is also modernizing its structure of technological environment in order to propitiate more quality for the information that is used in the decision and strategic process of the Conglomerate.

In the process of admission, we rely on systems for record of clients (Know Your Client – KYC), granting and approval of proposals of credit limits, as well as the data entry platforms, i.e., of record of transactions and verification of availability of credit limits.

In the process of monitoring, we rely on systems that monitor the clients, with internal and external behavioral indicators, management of limits with reports on availability of limits, listing the limits and the outstanding accounts, classification of rating of transactions, control of receivables and verification of instruments, tools with management reports on the credit portfolio and internal and external bureaus.

Methodology for measurement and mitigation of credit risk

The Conglomerate conducts assessments of credit risk of the transactions, by means of monitoring systems with parameters that are established in internal rules, to monitor and anticipate any losses in the portfolio. It is stressed that in the identification of deterioration of the quality of the credit portfolio, risk mitigation actions are taken, such as reassessment of the risk profile of the clients, guarantees and in loco visits.

Methodology for limits of counterparty credit risk

In the process of credit management, controls are held and credit policies and rules are monitored, together with those of the relevant processes, restrictions and established limits, in addition to analyses of the risks and submission to the limits of authority and to the approving committees.

The credit policies, normative acts and procedures have been prepared in line with the regulatory requirements and market best practice, with the purpose of making the policies and strategies for management of the credit risk of the Conglomerate become clearly documented, establishing operational limits, mechanisms for mitigation of risk and procedures intended to maintain the exposure to credit risk at levels that are acceptable for the management of the institution.

The Conglomerate has a structure that is dedicated to the management of the limits, the purpose of which is of monitoring the behavior of the portfolio and communicating to Top Management, by means of periodic reports, business opportunities and any risks of extrapolation of limits.

Exposure to credit risk

The carrying amount of the financial assets and the off-balance sheet balances represent the maximum credit exposure. The maximum credit exposure on the date of the financial statements was:

	2012	**2011**
Financial assets	**52,461,791**	**42,947,346**
Cash and cash equivalents	1,178,101	5,594,904
Financial assets with resale agreement	13,914,873	9,618,225
Financial assets at fair value through profit or loss	12,460,855	10,011,804
Financial assets available for sale	22,928,411	16,045,469
Derivative financial instruments	1,979,551	1,676,944
Financial assets with characteristics of granting of credit	**70,349,508**	**79,800,831**
Loans and receivables - (a)	70,349,508	79,800,831

Off Balance	**12,946,828**	**11,858,993**
Corporate guarantees and other guarantees	12,545,114	11,838,994
Letter of guarantee	401,714	19,999
Total	135,758,127	134,607,170

(a) Conglomerate policy is to use loans and loan-like receivables with characteristics of granting of credit for credit risk exposure purposes, see explanatory note 8a.

Quality of Credit of the Financial Assets

Below we show the segregation of the transactions with characteristics of granting of credit considering the carrying amount of the maximum exposure of the credit risk on the date of the financial statements:

Unmatured portfolio

Internal classification	12/31/2012	12/31/2011
Low	52,977,135	63,347,934
Average	838,615	571,124
High	162,954	599,849
Total	53,978,704	64,518,907

Overdue portfolio without incidence of impairment

Aging analysis	12/31/2012	12/31/2011
From 1 to 30 days in arrears	7,777,770	6,876,074
From 31 to 60 days in arrears	-	2,193,253
From 61 to 90 days in arrears	-	1,141,231
Total	7,777,770	10,210,558

Overdue portfolio with incidence of impairment

Internal classification	12/31/2012	12/31/2011
Collective assessment	7,872,530	4,549,143
Individual assessment	720,504	522,223
Total	8,593,034	5,071,366
Total of the portfolio	70,349,508	79,800,831

Financial assets

Maximum exposure to credit risk for financial assets on the date of the financial statements, by counterparty geographic region:

	2012	2011
Domestic	50,494,516	40,316,764
Abroad	1,967,275	2,630,582
Total	52,461,791	42,947,346

Maximum exposure to credit risk for financial assets on the date of the financial statements, broken down by counterparty:

	2012	2011
Public	25,657,733	16,722,265
Private	26,804,058	26,225,081
Total	52,461,791	42,947,346

Stream of maturities of part-payments of financial assets on the date of the financial statements:

	2012	2011
Up to 90 days	18,136,654	21,886,799
From 91 to 360 days	8,045,607	2,726,025
From 1 to 3 years	9,403,206	5,962,882
From 3 to 5 years	11,570,068	6,478,959
Over 5 years	5,306,256	5,892,681
Total	52,461,791	42,947,346

Financial assets with characteristics of granting of credit

The maximum exposure to credit risk for loans and receivables with characteristics of granting of credit on the date of the financial statements, by geographical region of the counterparty, was:

	2012	2011
Domestic	70,349,508	79,800,831
Abroad	-	-
Total	70,349,508	79,800,831

The maximum exposure to credit risk for loans and receivables with characteristics of granting of credit on the date of the financial statement, by business segment, was:

	2012	**2011**
Retail clients	50,854,298	58,980,102
Wholesale clients	19,495,210	20,820,729
Total	70,349,508	79,800,831

The maximum exposure to credit risk for loans and receivables with characteristics of granting of credit on the date of the financial statements, by concentration of risk, was:

	2012	**2011**
Ten major debtors	2,960,084	3,018,213
Fifty next major debtors	4,018,461	4,266,170
One hundred next major debtors	3,056,467	3,458,730
Other clients	60,314,496	69,057,718
Total	70,349,508	79,800,831

The maximum exposure to credit risk for loans and receivables with characteristics of granting of credit on the date of the financial statements, by sector of economic activity, was:

	2012	**2011**
Legal Entities	20,613,713	21,971,937
State public sector	26,253	53,417
Services	26,253	53,417
Private sector	20,587,460	21,918,520
Industry	9,999,478	10,535,227
Commerce	3,738,451	3,995,092
Rural	342,349	877,330
Services	6,507,182	6,510,871
Individuals	49,735,795	57,828,894
Total	70,349,508	79,800,831

The flow of maturity of the installments of the loans and receivables portfolio with characteristics of granting of credit, granted on the date of the financial statements, was:

	2012	**2011**
Overdue installments		
As of 15 days	1,893,450	1,974,370
Unmatured installments		
Up to 90 days	13,646,984	13,415,668
From 91 to 360 days	20,334,140	22,121,653
From 1 to 3 years	28,197,221	32,749,900
From 3 to 5 years	4,522,949	7,303,112
Over 5 years	1,754,764	2,236,128
Total	70,349,508	79,800,831

Off Balance

The maximum exposure to credit risk for the portfolio of credit commitments by guarantees, recorded in memorandum accounts on the date of the financial statements, by field of activity of the counterparty, was:

	2012							**2011**
	Commerce	**Industry**	**Financial institutions**	**Individual**	**Services**	**Others**	**Total**	**Total**
Corporate guarantees and other guarantees	471,948	2,242,558	5,038,622	9,662	3,811,935	970,389	12,545,114	11,838,994
Letter of guarantee	-	-	401,714	-	-		401,714	19,999
Total	471,948	2,242,558	5,440,336	9,662	3,811,935	970,389	12,946,828	11,858,993

The maximum exposure to credit risk for the portfolio of credit commitments by guarantees, recorded in memorandum accounts on the date of the financial statements, by geographic region of the counterparty, was:

	2012				**2011**
	Northeast	**South**	**Southeast**	**Total**	**Total**
Corporate guarantees and other guarantees	162,419	12,094,050	288,645	12,545,114	11,838,994
Letter of guarantee	-	401,714	-	401,714	19,999
Total	162,419	12,495,764	288,645	12,946,828	11,858,993

Guarantees received

The guarantees received for the granting of credit in wholesale segment transactions, recorded in memorandum accounts on the date of the financial statements, by field of activity of the counterparty, were:

	2012						2011
	Commerce	**Industry**	**Financial institutions**	**Individual**	**Services**	**Total**	**Total**
Corporate guarantees and other guarantees	2,887,331	8,676,751	2,109,394	109,039	4,615,904	18,398,420	17,719,650
Securities	1,537,636	6,156,149	1,406,223	616,679	3,589,759	13,306,446	7,211,957
Machinery and equipment	57,046	721,051	-	69,939	524,811	1,372,847	1,533,353
Mortgages	113,518	601,063	-	20,893	90,074	825,548	644,707
Others	401,500	668,343	-	2,096	390,120	1,462,060	4,415,365
Total	4,997,031	16,823,357	3,515,617	818,646	9,210,668	35,365,321	31,525,032

The guarantees received for the granting of credit in wholesale segment transactions, recorded in memorandum accounts on the date of the financial statements, by geographic region of the counterparty, were:

	2012					2011
	Midwest	**Northeast**	**South**	**Southeast**	**Total**	**Total**
Corporate guarantees and other guarantees	334,352	473,332	14,864,657	2,726,079	18,398,420	17,719,650
Securities	221,436	889,616	10,547,028	1,648,366	13,306,446	7,211,957
Machinery and equipment	30,457	26,861	1,174,339	141,190	1,372,847	1,533,353
Mortgages	5,826	18,089	650,878	150,755	825,548	644,707
Others	58,590	73,514	1,146,665	183,291	1,462,060	4,415,365
Total	650,661	1,481,412	28,383,567	4,849,681	35,365,321	31,525,032

For the Retail segment the financing agreements have as collateral the financed asset, which are regulated in the clauses of the agreement executed between the parties and the amounts of the guarantees are measured monthly through the market value quotes disclosed in the websites of specialized companies and that are commonly used in the financial market. On December 31, 2012 the estimated selling value for the retail segment, after deduction of the costs for effecting the sales, totaled R$25,146,679.

The estimated selling value was assessed by means of a comparative study between the market value of the assets, disclosed in the websites of specialized companies and that are commonly used by the financial market, and the effective amount of the sale of the asset. Factors that influence in the price such as brand, model and aging of the warranty were considered in the calculation.

In relation to the costs, the average amounts of costs of the entire repossession process are used, which include: filing of the legal action, location of the guarantee, tow truck service, daily parking lot rates, Detran (local acronym for Traffic Department) fees, selling professional fees, etc.

Provision for losses due to impairment

Provision for losses due to impairment by individually significant transaction and mass portfolio:

	2012	**2011**
Individual significant transactions	369,627	336,539
Mass transactions	4,828,578	3,365,732
Total	5,198,205	3,702,271

The activity and the provision for losses due to impairment in relation to the loans and receivables with characteristics of granting of credit were:

	2012	**2011**
Beginning balance	3,702,271	1,052,182
Accruals/(Reversals)	5,932,196	4,211,719
Write-offs to loss	(4,475,273)	(1,289,886)
Others	39,011	(271,744)
Ending balance	5,198,205	3,702,271

Management assesses on each date of closing of the balance sheet the risk behavior of financial assets and of groups of financial assets in order to identify the need for recognition of a provision for losses incurred and not identified, according to IAS 39.58. In the event of evidence that a financial asset or group of financial assets presents problems of recovery, a provision for impairment must be accrued.

During 2012 the Conglomerate renegotiated/amended R$ 6,224,322 (R$ 9,981,306 in 2011) of loans and receivables with characteristics of granting of credit. This amount considers renegotiation/amendments of performing and non-performing agreements. In the same period the Conglomerate recovered R$ 252,707 (R$ 188,232 in 2011) that had been written off to loss.

Transfer of financial assets that are not unrecognized

In 2012 in the course of its business, the Conglomerate carried out transactions that resulted in the transfer of financial assets represented by securities and public bonds and loans and receivables for clients. According to the conditions of the transactions, the financial assets transferred continue to be recognized in their totality in the books of the institution.

The Conglomerate transfers financial assets by means of the following transactions:

Sale with repurchase commitment

Sales with repurchase commitment are transactions in which the Conglomerate sells an instrument, in their majority public bonds, and simultaneously commits to repurchase the same instrument with a fixed price at a future date. The Conglomerate continues to recognize the instrument in its totality in the balance sheet because the risks and benefits of the instruments were substantially retained, i.e., any change in the market value and the earnings that the instrument offers are of full responsibility of the Conglomerate. Below we show the balances that contemplate the transactions in their relevant line items:

Sale with repurchase commitment	**2012**	**2011**
Assets		
Financial assets at fair value through profit or loss	7,722,421	6,383,763
Financial Treasury Bills	494,867	2,471,265
Federal Treasury Bills	5,422,676	3,712,412
National Treasury Notes	1,804,878	200,086
Associated liability		
Financial liabilities at amortized cost	(7,690,514)	(6,326,734)
Financial Treasury Bills	(492,914)	(2,465,628)
Federal Treasury Bills	(5,355,181)	(3,662,673)
National Treasury Notes	(1,842,419)	(198,433)
Total	31,907	57,029

Assignment of credit with substantial retention of risks and benefits

The Conglomerate transfers the right of receiving the future financial flow of the financial assets classified as loans and receivables to the assignee, by means of receipt of an amount in cash, calculated on the date of the transfer. However, the Conglomerate continues to recognize in its balance sheet the balances of the financial assets in highlighted line items because the risks and benefits of the instruments were substantially retained, i.e., any situation of default that occurs with the transferred receivables is of full responsibility of the Conglomerate. On account of this responsibility in relation to the assignee, an associated financial liability is recognized. Below we show the balances that contemplate the transactions in their relevant line items:

Assignment of credit with substantial retention of risks and benefits	**2012**	**2011**
Assets		
Loans and receivables	10,931,633	15,343,707
Credits assigned with co-liability	10,931,633	15,343,707
Associated liability		
Financial liabilities associated with transferred assets	(12,296,370)	(17,522,792)
Assignees (assignments with co-obligation)	(12,296,370)	(17,522,792)
Total	(1,364,737)	(2,179,085)

The Conglomerate holds guarantees for loans and receivables with characteristics of granting of credit in the form of mortgages on properties, securities and other guarantees.

d. Management of capital

Allocation of capital

The allocation of capital among the operations and specific activities is, in its majority, driven by the optimization of return on allocated capital.

The amount of capital allocated to each operation or activity is mainly based on the regulating capital, but in certain cases the regulating norms do not completely reflect the level of variance of risk associated with the different activities. In these cases, the capital requirements can be adapted to reflect the different risk profiles, subject to the general level of capital to sustain a specific operation or activity that does not fall below the minimum required for regulating purposes.
The process of allocation of capital to specific operations and activities is conducted independently from the persons responsible for the operation and is subject to analysis by the ALM, Risks and Capital Operational Committee.

Although the maximization of the return on capital adjusted for risk is the main base used to determine how capital is allocated within the Conglomerate for specific operations or activities, it is not the only base used for taking decisions. Synergies with other operations and activities, availability of management and other resources and the adequacy of the activity for the long-term strategic objectives of the Conglomerate also are other factors taken into consideration. The policies of the Conglomerate in relation to management and allocation of capital are analyzed regularly by the Executive Board.

Regulatory capital

The Central Bank of Brazil is the regulating agency that establishes and monitors the capital norms for the Conglomerate as a whole.

In relation to implementation of the current capital norms, the Central Bank of Brazil requires the Conglomerate to maintain an established proportion of the total capital in relation to the weighted total of the risk assets. The Conglomerate calculates the needs for market risk in its tradable portfolios based on the VaR models adopted and uses its internal classifications as a base to weight the credit risk.

The regulating capital of the group is analyzed at two levels:

- Level 1 Capital, which basically includes the capital of common and preferred shares, accumulated profits and capital and profit reserves.

- Level 2 Capital, which basically includes subordinated liabilities.

The policy of the Conglomerate seeks to maintain a solid capital base to retain the confidence of the investor, of the creditor or of the market, and to sustain future development of the business. The impact of the level of capital on the shareholder's return is also recognized and the Conglomerate recognizes the need to maintain equilibrium between the higher returns that may be possible with more leveraging and the benefits and security provided by a solid capital position.

The Conglomerate and its individually-regulated operations have complied with all capital requirements imposed externally during the period.

There were no significant changes in the capital management of the Conglomerate during the period.

The position of the regulating capital of the Conglomerate on December 31, 2012 and 2011 is shown below:

Basel Index calculated based on the equity position, prepared using the accounting guidelines emanated from the Corporations Law and the norms and instructions of the CMN.

	2012	**2011**
Total Referential Equity (PR)	12,110,639	12,054,180
Level I Referential Equity	7,874,507	8,086,351
Level II Referential Equity	4,236,132	3,967,829
Required Referential Equity (PRE)	9,315,088	9,385,714
Credit Risk	8,720,810	8,923,661
Market Risk	294,179	193,114
Operating Risk	300,099	268,939
Excess Referential Equity	2,795,551	2,668,466
Index (PR x 100)/(PRE/0.11)	14.3%	14.2%

	2012	**2011**
Situational limit for immobilization	198,944	213,460
Margin or shortfall	5,856,374	5,813,628
Limit for immobilization	6,055,318	6,027,088

e. Liquidity Risk

The management of Liquidity Risk aims at organizing, assessing and monitoring the control of the liquidity risk of the Banco Votorantim financial conglomerate establishing the processes, tools and limits that are necessary for generation and analysis of prospective scenarios of liquidity and monitoring of the levels of tolerance to risk established by Top Management.

Definitions

The liquidity risk is defined by the:

- Possibility of the institution being unable to efficiently honor its expected and unexpected obligations, both current and future, including those deriving from the entailment of guarantees, without affecting its daily transactions and without incurring significant losses; and

- Possibility of the institution being unable to negotiate a position at market prices, due to its large size in relation to the volume normally transacted or on account of any discontinuity in the market.

The leading tools used for measuring the liquidity risk are the Liquidity Target and the Minimum Cash, constructed with stress test methodology.

Basic principles

The basic principles that are observed by the Conglomerate in the management and control of liquidity risks are in compliance with Resolution no. 4090 of the National Monetary Council (local acronym CMN) and with market best practice:

- Involvement of Top Management: the existing committees and commissions are structured with the purpose of involving Top Management in the overall supervision of the acceptance of risks;

- Independence of functions: the segregation of functions between the areas responsible for execution of the transactions and the definition of the business strategies and the areas responsible for their bookkeeping, for the control of risks, compliance internal controls and auditing, are structured with the purpose of ensuring independence and autonomy in the conduction of the attributions that are inherent to each function;

- Definition of attributions: the clear definition of the processes and of the array of activities of each function involved in the management and control of liquidity risks is structured with the objective of enabling an organized and efficient operational management;

- Definition of methodologies for construction of scenarios: structured methodologies are adopted, which have mandatory corporate utilization, based on market best practice that aim at incorporating the dynamics of the contracting of new transactions and of settlement of the existing portfolios;

- Establishment of limits: clear and objective definition of the authorized limits of risk, based on the metrics of risks, structured with the purpose of inserting in the daily activities the levels of toleration to risk defined by the Board of Directors of the institution;

- Monitoring of risks: definition of the process for monitoring and reporting of the level of use of the authorized limits;

- Liquidity contingency plan: definition and periodic revision of a structured plan for re-composition of the pre-established levels of cash, with attribution of those responsible and of the instruments.

Governance and Management and Control Commissions

The monitoring of the liquidity risk management activities is a constituent part of the attributions of the following collegiate bodies, with clear definition of attributions, composition and periodicity:

Board of Directors

- Responsible for establishing the essential guidelines of the general policy of the Institution, verifying and monitoring their execution.

Executive committee

- Responsible for discussing and monitoring recurrent business themes addressed in the committees and operational commissions and for continually revising the internal governance structure in order to promote enhancements and approve any adjustments and modifications in the committees, commissions and operational sub-commissions of the internal governance.

Operational Committee for ALM, Risks and Capital

- Responsible for analyzing and ratifying the proposals forwarded for approval by the subordinated Commissions and for forwarding them to the Executive Committee in relation to the actions for management and control of risks and capital management.

Liquidity commission

- Responsible for monitoring and resolving on matters related to the management of liquidity risk, submitting them for monitoring by the Operational Committee for ALM, Risks and Capital.

Areas involved

The liquidity risk management functions comprise a combination of functional activities that permeate the entire business chain, right from the development of products, to the negotiation and to the disbursement of transactions, the modeling and control of liquidity risk, as well as monitoring of the effectiveness of the processes and control used.

The liquidity risk management functions are carried out by formally-appointed functional units that have technically capable teams, under segregated management, and with clearly defined attributions, as shown below:

Market and Liquidity Risk

- Responsible for the methodologies for modeling and for the validation of the assumptions used for the scenarios of liquidity risk;

- Responsible for the updating and periodic revision of the liquidity scenarios and of the liquidity contingency plan, as well as for the monitoring of the authorized limits of cash.

Treasury and Funding Area

- Responsible for the negotiation of transactions with the market and clients, always seeking a fair price and the conformity of such transactions;

- Responsible for the definition and periodic updating of assumptions of application and funding, through the implementation of a liquidity contingency plan, with observance of the defined strategies and pre-authorized instruments.

Measures and limits of risk for management and control

The Conglomerate adopts a combination of objective measures for management and control of liquidity risks:

- Liquidity and Minimum Cash Target: comprises the establishment of the intervals and minimum acceptable levels, configuring prospective limits for the various projected liquidity scenarios;

- Maturity scenarios: comprise the assessment of the future liquidity profile, using as a base the general assumption of maturity of the current portfolios;

- Budgetary scenarios: comprise the assessment of the future liquidity profile, with assumptions that are consistent with the budgetary planning, using as a base the general assumption of rollover of the current portfolios;

- Stress scenarios: comprise simulations of the impact on the portfolios deriving from extreme market conditions and/or from the dynamics and composition of the portfolios, which could alter significantly the projected scenarios of liquidity of the Conglomerate;

- Sensibility Analyses: comprise simulations of sensitivity in the future liquidity profile on account of minor fluctuations in the market conditions and/or in the dynamics and composition of the portfolios; and

- Funding Concentration Profile: comprises the monitoring of the profile of concentration of the portfolios, in terms of volumes, timeframes, instruments, segments and counterparties.

The measurements of risk are used for the establishment of limits and for risk-taking. These limits comprise the definition of the maximum amounts authorized, through establishment of minimum levels of cash and of contingency actions. The Market and Liquidity Risk area is responsible for daily monitoring of the liquidity risk and for calling upon the pertinent forums in the event of increase of the risk.

The amounts established in the limits of liquidity and in the contingency plan are updated and revised periodically on account of any significant alteration of the market conditions or of the dynamics and composition of the portfolios.

Systems of measurement and communication process

The Conglomerate adopts corporate systems for measurement and control of liquidity risks, combining applications developed internally with market solutions of attested robustness. These systems activate the integrated treatment of information in a sequential form:

- the capture of the registration of the transactions negotiated and of their record data;
- the updating and the continual filing of such information in structured databases, with monitoring of their accounting integrity and consistency;
- the assessment of the liquidity profile, by calculation of the rollover and of the maturity of transactions, in accordance with the assumptions of the various scenarios in question.

In addition, the Conglomerate adopts a structured process for communication of the matters related to the management of liquidity risks. This process of communication comprises:

- the periodic issuance of the objective reports, in which are presented the scenarios of liquidity and the evolution of the profile of the funding portfolios, as well as demonstrating the levels of utilization of authorized limits;
- the periodic holding of collegiate forums for monitoring, with observance of the levels of authority for decisions in which the matters in question are debated in a participative form.

Communication and Extrapolation of Limits and Contingency Plan

The procedure adopted for the monitoring of the levels of minimum cash and contingency plan comprises two stages: (i) of communication, and (ii) of monitoring.

Communication:

- For communication the liquidity scenarios and metrics are presented in the Liquidity Commission and in the ALM, Risks and Capital Committee, in which the variances are analyzed and the pre-established levels of activation of the contingency plan are considered in the event of potential extrapolation of the established limits.

Monitoring:

- Any extrapolation of limits necessarily implies implementation of combined strategies of business, of management of the portfolios for application and funding, for the re-composition of the levels of liquidity, including if necessary the launching and adoption of the actions established in advance in the contingency plan.
- These strategies are responsibilities of the business managers, considering the market conditions, and are monitored in the Liquidity Commission and in the ALM Risks and Capital Committee.

f. Management of Assets and Liabilities

The Operational Committee of ALM, Risks and Capital is responsible for the management of the structural risks of the interest, foreign exchange and liquidity rates, as well as management of the capital that seeks to optimize the risk versus return ratio and more efficiency in the composition of the factors that can impact the Solvability Index (Basel).

The maturities of assets and liabilities are shown below:

	2012					
	Up to 90 days	**From 91 to 360 days**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	1,178,101	-	-	-	-	1,178,101
Financial assets with resale agreement	9,822,755	4,092,118	-	-	-	13,914,873
Financial assets at fair value through profit or loss	12,460,855	-	-	-	-	12,460,855
Financial assets available for sale	3,060,305	1,094,757	6,967,949	9,193,925	2,611,475	22,928,411
Derivative financial instruments	366,186	388,545	337,663	585,045	302,112	1,979,551
Loans and receivables	15,116,305	21,084,742	28,052,026	4,252,872	1,736,343	70,242,288
Total	42,685,999	26,761,038	35,151,922	13,447,941	4,657,179	122,704,079
Liabilities						
Financial liabilities at fair value through profit or loss	334,961	220,892	51,584	-	-	607,437
Financial liabilities at amortized cost	24,905,454	14,160,019	3,539,713	96,025	111,315	42,812,526
Financial liabilities associated with transferred assets	6,354,988	3,417,770	6,057,725	339,300	802	16,170,585
Financial institution deposits	948,428	44,995	617,515	7,446	738,426	2,356,810
Client deposits	3,389,040	7,597,541	1,818,586	98,046	4,421	12,907,634
Loans and onlendings	1,751,656	5,440,352	1,781,639	600,570	661,709	10,235,926
Securities issued	3,089,738	4,604,041	9,822,236	5,149,451	40,919	22,706,385
Derivative financial instruments	223,233	328,839	570,597	219,543	393,038	1,735,250
Subordinated liabilities	216,490	-	1,946,082	2,108,452	2,720,187	6,991,211
Total	41,213,988	35,814,449	26,205,677	8,618,833	4,670,817	116,523,764

	2011					
	Up to 90 days	**From 91 to 360 days**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	5,594,904	-	-	-	-	5,594,904
Financial assets with resale agreement	8,998,430	619,795	-	-	-	9,618,225
Financial assets at fair value through profit or loss	4,016,503	1,138,598	2,486,184	1,558,621	811,898	10,011,804
Financial assets available for sale	3,006,885	181,522	3,202,330	4,659,018	4,995,714	16,045,469
Derivative financial instruments	270,078	786,110	274,368	261,320	85,068	1,676,944
Loans and receivables	20,920,990	22,023,288	33,568,876	7,117,533	2,142,773	85,773,460
Total	42,807,790	24,749,313	39,531,758	13,596,492	8,035,453	128,720,806
Liabilities						
Financial liabilities at fair value through profit or loss	11,843	-	100,332	11,531	-	123,706
Financial liabilities at amortized cost	14,264,319	16,717,088	4,091,613	191,711	102,037	35,366,768
Financial liabilities associated with transferred assets	8,139,340	5,108,308	8,270,791	1,958,893	7,641	23,484,973
Financial institution deposits	821,803	802,329	612,149	15,513	604,409	2,856,203
Client deposits	4,556,105	13,453,414	4,635,533	108,467	14,917	22,768,436
Loans and onlendings	1,813,798	3,493,210	4,780,924	692,817	697,613	11,478,362
Securities issued	179,617	4,952,744	8,765,520	3,760,147	81,236	17,739,264
Derivative financial instruments	330,008	648,857	193,115	185,616	124,408	1,482,004
Subordinated liabilities	-	1,136,579	2,002,476	445,759	3,812,496	7,397,310
Total	30,116,833	46,312,529	33,452,453	7,370,454	5,444,757	122,697,026

The assets and liabilities with an indefinite term, for the purposes of segregation in the balance sheet, are classified showing the asset transactions as over 5 years and the liability transactions as up to 90 days. Stockholders' equity has no defined term and is being shown as over 5 years.

The profile of the derivative financial instruments segregated by place of trading in the relevant base dates were:

Asset position	**2012**	**2011**
Transactions in Stock Exchanges	214,501	517,136
Over-the-counter	1,765,050	1,159,808
Financial institutions	1,505,298	909,473
Clients	259,752	250,335
Total	1,979,551	1,676,944

Liability position	2012	2011
Transactions in Stock Exchanges	266,955	546,213
Over-the-counter	1,468,295	935,791
Financial institutions	1,386,873	864,600
Clients	81,422	71,191
Total	1,735,250	1,482,004

The financial assets pledged in guarantee for Stock Exchange transactions, clearing houses, among others, are:

	2012	2011
Transactions in Stock Exchanges	1,670,125	2,015,730
National Treasury Notes	513,913	256,790
Financial Treasury Bills	38,601	21,920
Federal Treasury Bills	1,117,611	1,737,020
Clearing House Transactions	128,373	61,463
National Treasury Notes	110,615	6,652
Financial Treasury Bills	17,758	-
Federal Treasury Bills	-	54,811
Others	2,710,876	1,774,907
National Treasury Notes	1,019,543	410,859
Financial Treasury Bills	30,947	21,820
Federal Treasury Bills	690,745	-
Foreign government bonds	594,235	-
Others (a)	375,406	1,342,228
Total	4,509,373	3,852,100

(a) In 2012 basically concern instruments held abroad amounting to R$ 375,406 (R$ 9,671 of instruments held abroad and R$ 1,332,557 of foreign government bonds, in 2011).

The Conglomerate's exposure to foreign currency risk was the following:

2012

	Local currency	Dollar	Euro	Yen	Swiss franc	Pound Sterling	Others	Total
Assets								
Cash and cash equivalents	1,177,896	(3,457)	3,349	-	313	-	-	1,178,101
Financial assets with resale agreement	13,607,002	307,871	-	-	-	-	-	13,914,873
Financial assets at fair value through profit or loss	11,106,727	1,354,128	-	-	-	-	-	12,460,855
Financial assets available for sale	22,928,411	-	-	-	-	-	-	22,928,411
Loans and receivables	63,013,153	7,172,050	57,085	-	-	-	-	70,242,288
Other assets	4,080,978	388,778	6,391	298	3,567	461	5,779	4,486,252
Total	115,914,167	9,219,370	66,825	298	3,880	461	5,779	125,210,780
Liabilities								
Financial liabilities at fair value through profit or loss	607,437	-	-	-	-	-	-	607,437
Financial liabilities at amortized cost	42,812,526	-	-	-	-	-	-	42,812,526
Financial liabilities associated with transferred assets	16,170,585	-	-	-	-	-	-	16,170,585
Financial institution deposits	2,146,001	210,809	-	-	-	-	-	2,356,810
Client deposits	12,071,593	827,503	8,538	-	-	-	-	12,907,634
Loans and onlendings	7,525,343	2,702,075	8,508	-	-	-	-	10,235,926
Securities issued	13,839,946	7,755,354	535,987	-	575,098	-	-	22,706,385
Subordinated liabilities	3,694,142	3,297,069	-	-	-	-	-	6,991,211
Other liabilities	3,758,779	1,466,059	21,229	-	-	-	-	5,246,067
Total	102,626,352	16,258,869	574,262	-	575,098	-	-	120,034,581

Derivative financial instruments	Dollar	Euro	Yen	Swiss franc	Pound Sterling	Others
Foreign currency asset position	10,620,168	541,284	-	577,810	-	-
Foreign currency liability position	3,610,986	77,912	850	-	-	-
Currency exchange exposure	**(30,317)**	**(44,065)**	**(552)**	**6,592**	**461**	**5,779**

2011

	Local currency	Dollar	Euro	Yen	Swiss franc	Others	Total
Assets							
Cash and cash equivalents	5,529,277	64,456	908	-	263	-	5,594,904
Financial assets with resale agreement	9,173,337	444,888	-	-	-	-	9,618,225
Financial assets at fair value through profit or loss	8,578,171	1,422,972	205	-	10,456	-	10,011,804
Financial assets available for sale	16,045,469	-	-	-	-	-	16,045,469
Loans and receivables	79,618,444	6,116,655	38,361	-	-	-	85,773,460
Other assets	1,289,472	158,354	-	12,455	-	8,794	1,469,075
Total	120,234,170	8,207,325	39,474	12,455	10,719	8,794	128,512,937
Liabilities							
Financial liabilities at fair value through profit or loss	123,706	-	-	-	-	-	123,706
Financial liabilities at amortized cost	35,366,768	-	-	-	-	-	35,366,768
Financial liabilities associated with transferred assets	23,484,973	-	-	-	-	-	23,484,973
Financial institution deposits	2,753,460	102,743	-	-	-	-	2,856,203
Client deposits	22,055,819	705,062	7,555	-	-	-	22,768,436
Loans and onlendings	10,045,723	1,418,720	13,919	-	-	-	11,478,362
Securities issued	7,586,918	9,143,415	486,159	-	522,772	-	17,739,264
Subordinated liabilities	4,728,358	2,668,952	-	-	-	-	7,397,310
Other liabilities	955,461	839,101	20,327	-	-	-	1,814,889
Total	107,101,186	14,877,993	527,960	-	522,772	-	123,029,911

Derivative financial instruments	Dollar	Euro	Yen	Swiss franc	Others
Foreign currency asset position	8,427,165	515,414	-	527,595	-
Foreign currency liability position	1,841,189	69,179	-	-	-
Currency exchange exposure	(84,692)	(42,251)	12,455	15,542	8,794

g. Fair value hierarchy

The table below shows financial instruments recorded at fair value on December 31, 2012 and 2011, using a valuation method. The different levels were defined as follows:

- Level 1: prices quoted (not adjusted) in active markets;
- Level 2: inputs included in Level 1 that are observable for assets or liabilities, directly (prices) or indirectly (deriving from prices); and
- Level 3: assumptions that are not based on market data that are observable (non-observable inputs).

	2012			2011		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets						
Financial assets at fair value through profit or loss	8,909,966	2,972,081	578,808	7,207,612	2,249,338	554,854
Financial assets available for sale	18,929,309	2,518,421	1,480,681	12,439,540	992,856	2,613,073
Derivative financial instruments	93,853	1,883,822	1,876	28,152	1,647,151	1,641
Loans and receivables	-	41,434,209	-	-	44,418,406	-
Total	27,933,128	48,808,533	2,061,365	19,675,304	49,307,751	3,169,568
Liabilities						
Financial liabilities at fair value through profit or loss	493,304	114,133	-	8,465	115,241	-
Derivative financial instruments	74,391	1,660,755	104	7,386	1,442,054	32,564
Loans and onlendings	-	1,962,161	-	-	477,589	-
Securities issued	-	4,838,636	-	-	2,888,897	-
Subordinated liabilities	-	2,929,767	-	-	2,199,747	-
Total	567,695	11,505,452	104	15,851	7,123,528	32,564

The fair value of the financial instruments traded in active markets (such as instruments held for trading and available for sale) is based on the market prices quoted on balance sheet date. A market is seen as being active if the prices quoted are promptly and regularly available with a Stock Exchange, a dealer, a broker, a group of industries, pricing service or regulating agency, and if such prices represent actual market transactions that occur regularly on strictly commercial bases.

The market price quoted used for the financial assets held by the Conglomerate is the current competing price. These instruments are included in Level 1**.**

The fair value of the financial instruments that are not traded in active markets (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of the data adopted by the market in which they are available and rely the least possible on specific estimates of the entity. If all of the relevant information required for the fair value of an instrument is adopted by the market, the instrument is included in Level 2.

Fair value of financial instruments classified as level 3 do not show pricing data in an active market. The Conglomerate uses pricing criteria from mathematical models used in academic circles and/or through specific governance with the participation of specialists and structured internal processes.

The aim is to obtaining the most appropriate value for presenting these transactions, and the Conglomerate believes that methodologies adopted are appropriate and consistent with market practices.

Composition of level 3

Assets	**2012**	**2011**
Financial assets at fair value through profit or loss	578,808	554,854
Debentures	-	87,762
Shares of non-public companies	578,808	467,092
Financial assets available for sale	1,480,681	2,613,073
Debentures	-	924,637
Shares of non-public companies	1,480,681	1,688,436
Derivative financial instruments	1,876	1,641
Credit derivatives	1,876	1,641
Total	2,061,365	3,169,568

Liabilities	**2012**	**2011**
Derivative financial instruments	104	32,564
Credit derivatives	104	32,564
Total	104	32,564

Changes in level 3

Assets	Financial assets at fair value through profit or loss		Financial assets available for sale		Derivative financial instruments	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Beginning balance	**554,854**	**412,279**	**2,613,073**	**1,883,520**	**1,641**	**358,158**
Acquisitions	**120,302**	**467,092**	**27,140**	**-**	**-**	**-**
Shares of non-public companies	111,716	467,092	27,140	-	-	-
Debentures	8,586	-	-	-	-	-
Sales and/or Redemptions	**-**	**(330,395)**	**(165,552)**	**-**	**-**	**-**
Shares of non-public companies	-	(330,395)	(155,854)	-	-	-
Debentures	-	-	(9,698)	-	-	-
Transfers	**(96,348)**	**-**	**(917,449)**	**-**	**-**	**(350,733)**
For Level 1 - Debentures – (a)	-	-	(93,014)	-	-	-
For Level 2 – (b)	(96,348)	-	(824,435)	-	-	-
Debentures	(96,348)	-	(824,435)	-	-	-
Options	-	-	-	-	-	(11,270)
CLN – Credit Linked Note	-	-	-	-	-	(320,542)
Credit derivatives	-	-	-	-	-	(18,921)
Result	**-**	**5,878**	**(76,531)**	**729,553**	**235**	**(5,784)**
Shares of non-public companies	-	-	(79,041)	153,344	-	-
Debentures	-	5,878	2,510	576,209	-	-
Credit derivatives	-	-	-	-	235	(5,784)
Flexible Option	-	-	-	-	-	-
Ending balance	**578,808**	**554,854**	**1,480,681**	**2,613,073**	**1,876**	**1,641**

Liabilities	**Derivative financial instruments**	
	2012	**2011**
Beginning balance	**32,564**	**304,081**
Transfers	**-**	**(272,421)**
For Level 2 – (a)	-	(272,421)
Options	-	(113,674)
CLN – Credit Linked Note	-	(147,544)
ELN – Equity linked Note	-	(9,315)
Credit derivatives	-	(1,888)
Result	**(32,460)**	**906**
Credit derivatives	(32,460)	906
Ending balance	**104**	**32,564**

(a) There was observance of the existence of an indicative rate disclosed by the ANBIMA (local acronym for Brazilian Financial and Capital Markets Association) that was adopted as the effective credit spread.

(b) There was observance of the existence of an indicative rate for a paper or a papers basket (according to their similarity), adopting the rate thereof for a credit spread.

45 Other information

a. Post-employment benefits for employees

There are no post-employment benefits, such as pensions, other retirement benefits, life insurance and post-employment medical care, other long-term benefits for employees and administrative officers, including remunerated leave of absence for years of service or other leaves, jubilee or other benefits for years of service, remuneration based on shares and benefits upon termination of employment contract, except for those provided in the collective bargaining agreement of the professional category.

b. Insurance coverage

The Conglomerate adopts a policy of contracting insurance coverage for the assets subject to risks, for amounts considered to be sufficient to cover any insurance losses, considering the nature of its activities. The risk assumptions adopted, given their nature, are not part of the scope of an audit of the financial statements and consequently were not analyzed by our independent auditors.