



Banco Votorantim S.A.

Consolidated financial statements
in IFRS as of December 31,
2010 and 2009



Banco Votorantim S.A.

Consolidated financial statements in IFRS

as of December 31, 2010 and 2009

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Independent auditors' report on 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"), which comprise the balance sheet as of December 31, 2010 and the related 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 financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) 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 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.

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. as of December 31, 2010, 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 as of 31 December 2010, whose presentation is being made spontaneously by Banco Votorantim S.A. 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, April 26, 2011

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Zenko Nakassato
Accountant CRC 1SP160769/O-0

Luciana Liberal Sâmia
Accountant CRC 1SP198502/O-8

Banco Votorantim S.A.

Consolidated balance sheets

as of December 31, 2010 and 2009 and January 1, 2009

(In thousands of Reais)

| | Nota | 2010 | 2009 | 01/01/09 | | Nota | 2010 | 2009 | 01/01/09 |
|---|------|--------------------|-------------------|-------------------|---|------|--------------------|-------------------|-------------------|
| Assets | | <u>121,241,095</u> | <u>90,679,692</u> | <u>76,170,910</u> | Liabilities | | <u>113,435,132</u> | <u>83,747,804</u> | <u>69,923,328</u> |
| Cash and cash equivalents | 4 | 1,499,981 | 9,121,617 | 526,681 | Financial liabilities at fair value through profit or loss | 15 | 2,623,977 | 381,228 | 1,903,258 |
| Financial assets with agreement for resale | 5 | 12,256,373 | 12,546,100 | 3,702,413 | Financial liabilities at amortized cost | 16 | 33,998,441 | 27,603,932 | 15,835,350 |
| Financial assets at fair value through profit or loss | 6a | 13,111,360 | 10,442,079 | 13,862,557 | Financial liabilities associated with transferred assets | 17 | 15,336,744 | 7,155,363 | 3,254,623 |
| Financial assets available for sale | 6b | 8,796,258 | 4,823,508 | 3,157,231 | Financial institution deposits | 18 | 726,266 | 1,741,042 | 4,182,084 |
| Derivative financial instruments | 7 | 1,789,425 | 1,521,671 | 4,524,314 | Client deposits | 19 | 22,871,690 | 22,735,879 | 14,749,850 |
| Loans and receivables | 8 | 78,795,878 | 49,125,040 | 44,260,974 | Loans and onlendings | 20 | 11,254,480 | 7,302,755 | 10,684,939 |
| Dividends receivable | | - | - | 771,043 | Securities issued | 21 | 11,252,882 | 7,136,157 | 6,590,274 |
| Current tax assets | 9 | 1,100,989 | 679,306 | 322,197 | Derivative financial instruments | 7 | 1,894,621 | 1,271,468 | 2,364,035 |
| Deferred tax assets | 10 | 2,040,681 | 1,647,132 | 1,292,449 | Subordinated liabilities | 22 | 6,904,262 | 4,366,821 | 2,869,692 |
| Long-term assets held for sale | 11 | 87,330 | 64,316 | 51,203 | Provisions | 23 | 113,691 | 81,329 | 57,768 |
| Other assets | 12 | 1,610,449 | 601,796 | 3,621,962 | Current tax liabilities | 24 | 611,640 | 634,147 | 369,337 |
| Tangible assets | 13 | 130,328 | 101,978 | 71,055 | Deferred tax liabilities | 25 | 1,164,706 | 753,695 | 817,690 |
| Intangible assets | 14 | <u>22,043</u> | <u>5,149</u> | <u>6,831</u> | Dividends payable | | 142,240 | 195,145 | 926,279 |
| | | | | | Legal obligations | 26 | 1,400,348 | 1,046,422 | 755,688 |
| | | | | | Other liabilities | 27 | 3,139,144 | 1,342,421 | 4,562,461 |
| | | | | | | | | | |
| | | | | | Total stockholders' equity attributable to the controlling shareholders | | <u>7,805,903</u> | <u>6,931,839</u> | <u>6,207,015</u> |
| | | | | | Capital stock | | 4,026,841 | 3,544,896 | 3,380,000 |
| | | | | | Reserves | 28b | 3,926,093 | 3,662,526 | 3,220,860 |
| | | | | | Others | 28c | (93,647) | (193,593) | (293,538) |
| | | | | | Equity assessment adjustments | 28e | (53,384) | (81,990) | (100,307) |
| | | | | | | | | | |
| | | | | | Total stockholders' equity attributable to non-controlling shareholders | | <u>60</u> | <u>49</u> | <u>40,567</u> |
| | | | | | | | | | |
| Total assets | | <u>121,241,095</u> | <u>90,679,692</u> | <u>76,170,910</u> | Total liabilities and stockholders' equity | | <u>121,241,095</u> | <u>90,679,692</u> | <u>76,170,910</u> |

The explanatory notes are constituent parts of the financial statements.

Banco Votorantim S.A.

Consolidated statements of income

Fiscal years ended on December 31, 2010 and 2009

(In thousands of Reais)

| | Note | 2010 | 2009 |
|--|------|------------------|------------------|
| Interest revenue | 29 | 10,774,209 | 7,911,294 |
| Interest expense | 30 | (7,924,062) | (5,343,681) |
| Financial Margin | | <u>2,850,147</u> | <u>2,567,613</u> |
| Revenues from services and commission fees | 31 | 2,691,502 | 2,372,448 |
| Expenses with services and commission fees | 32 | (2,594,552) | (2,380,407) |
| Net services and commission fee results | | <u>96,950</u> | <u>(7,959)</u> |
| Results of assets/liabilities at fair value through profit or loss | 33 | 2,429,554 | 1,359,222 |
| Result of financial assets available for sale | | 58,342 | (755) |
| Results of derivative financial instruments | 34 | (1,302,828) | 522,209 |
| Other operating revenues | | 247,569 | 75,199 |
| Operating results | | <u>4,379,734</u> | <u>4,515,529</u> |
| Results of losses due to impairment | 35 | (1,428,797) | (1,548,637) |
| Personnel expenses | 36 | (774,724) | (564,198) |
| Other administrative expenses | 37 | (546,369) | (462,187) |
| Depreciation and amortization | 38 | (28,432) | (27,449) |
| Tax expenses | 39 | (519,305) | (400,371) |
| Results from sale of long-term assets for sale | 40 | 226,804 | (2,337) |
| Other operating expenses | 41 | (206,946) | (517,290) |
| Income before taxes and contributions and profit sharing | | <u>1,101,965</u> | <u>993,060</u> |
| Current income taxes and contributions | 43a | (265,625) | (526,227) |
| Deferred income taxes and contributions | 43b | 25,942 | 399,012 |
| Profit sharing | | <u>(215,430)</u> | <u>(124,216)</u> |
| Net income for the fiscal year attributable to the controlling shareholders | | <u>646,852</u> | <u>741,629</u> |
| Participation of non-controlling shareholders | | <u>11</u> | <u>(1,039)</u> |
| Net income for the fiscal year | | <u>646,863</u> | <u>740,590</u> |

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, 2010 and 2009

(In thousands of Reais)

| | 2010 | 2009 |
|---|-----------------------|-----------------------|
| Net income for the fiscal year | <u>646,863</u> | <u>740,590</u> |
| Net variance of the fair value of financial assets available for sale | 24,900 | (37,782) |
| Income tax and social contribution on comprehensive income | <u>3,706</u> | <u>56,099</u> |
| Total comprehensive income | <u><u>675,469</u></u> | <u><u>758,907</u></u> |

The explanatory notes are constituent parts of the financial statements."

Banco Votorantim S.A.

Consolidated statements of changes in stockholders' equity

Fiscal years ended on December 31, 2010 and 2009

(In thousands of Reais)

| | Stockholders' equity attributable to the controlling shareholders | | | | | | | Non-controlling participations | Total stockholders' equity |
|---|---|------------------|------------------|------------------|-------------------------------|---------------------------|------------------|--------------------------------|----------------------------|
| | Capital stock | Capital reserves | Profit reserves | Others | Equity assessment adjustments | Accumulated Income/(loss) | Total | | |
| Balances on January 1, 2009 | 3,380,000 | 31,946 | 3,188,914 | (293,538) | (100,307) | - | 6,207,015 | 40,567 | 6,247,582 |
| | - | - | - | - | - | 9 | 9 | - | 9 |
| Increase / (reduction) of capital stock | 614,896 | - | - | - | - | - | 614,896 | (39,479) | 575,417 |
| Unpaid capital | (450,000) | - | - | - | - | - | (450,000) | - | (450,000) |
| Constitution / (reversal) of reserves | - | 585,103 | (143,437) | - | - | 143,437 | 585,103 | - | 585,103 |
| Revenues associated with funding | - | - | - | 99,945 | - | (99,945) | - | - | - |
| Equity assessment adjustments | - | - | - | - | 18,317 | - | 18,317 | - | 18,317 |
| Net income for the fiscal year | - | - | - | - | - | 741,629 | 741,629 | (1,039) | 740,590 |
| Interest on equity | - | - | - | - | - | (389,000) | (389,000) | - | (389,000) |
| Distribution of dividends | - | - | - | - | - | (396,130) | (396,130) | - | (396,130) |
| Balances on December 31, 2009 | <u>3,544,896</u> | <u>617,049</u> | <u>3,045,477</u> | <u>(193,593)</u> | <u>(81,990)</u> | <u>-</u> | <u>6,931,839</u> | <u>49</u> | <u>6,931,888</u> |
| Increase / (reduction) of capital stock | 450,000 | - | - | - | - | - | 450,000 | - | 450,000 |
| Capital paid in | 31,945 | (31,945) | - | - | - | - | - | - | - |
| Constitution / (reversal) of reserves | - | - | 295,512 | - | - | (295,512) | - | - | - |
| Revenues associated with funding | - | - | - | 99,946 | - | (99,946) | - | - | - |
| Equity assessment adjustments | - | - | - | - | 28,606 | (10,273) | 18,333 | - | 18,333 |
| Net income for the fiscal year | - | - | - | - | - | 646,852 | 646,852 | 11 | 646,863 |
| Distribution of dividends | - | - | - | - | - | (241,121) | (241,121) | - | (241,121) |
| Balances on December 31, 2010 | <u>4,026,841</u> | <u>585,104</u> | <u>3,340,989</u> | <u>(93,647)</u> | <u>(53,384)</u> | <u>-</u> | <u>7,805,903</u> | <u>60</u> | <u>7,805,963</u> |

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, 2010 and 2009

(In thousands of Reais)

| | 2010 | 2009 |
|---|---------------------|--------------------|
| Cash flows from operating activities | | |
| Net income for the fiscal year | <u>646,863</u> | <u>740,590</u> |
| Adjustments to net income | <u>1,862,140</u> | <u>1,830,250</u> |
| Depreciation/amortization | 28,432 | 27,449 |
| Provision for losses due to impairment | 1,347,474 | 1,388,561 |
| Provisions | 32,362 | 23,561 |
| Legal obligations | 353,926 | 290,734 |
| Revenues associated with funding | 99,946 | 99,945 |
| Net (increase) decrease of operating assets | <u>(39,456,674)</u> | <u>(7,253,810)</u> |
| Financial assets with agreement for resale | 289,727 | (8,843,687) |
| Financial assets at fair value through profit or loss | (2,669,281) | 3,420,478 |
| Financial assets available for sale | (3,972,750) | (1,666,277) |
| Derivative financial instruments | (267,754) | 3,002,643 |
| Loans and receivables | (31,018,312) | (6,252,627) |
| Dividends receivable | - | 771,043 |
| Current tax assets | (421,683) | (357,109) |
| Deferred tax assets | (393,549) | (354,683) |
| Long-term assets held for sale | (23,014) | (13,113) |
| Other assets | (1,008,664) | 3,021,205 |
| Equity assessment adjustments | 28,606 | 18,317 |
| Net increase (decrease) of operating liabilities | <u>26,816,504</u> | <u>12,744,186</u> |
| Financial liabilities at fair value through profit or loss | 2,242,749 | (1,522,030) |
| Financial liabilities at amortized cost | 6,394,509 | 11,768,582 |
| Financial liabilities associated with transferred assets | 8,181,381 | 3,900,740 |
| Financial institution deposits | (1,014,776) | (2,441,042) |
| Client deposits | 135,811 | 7,986,029 |
| Loans and onlendings | 3,951,725 | (3,382,184) |
| Securities issued | 4,116,725 | 545,883 |
| Derivative financial instruments | 623,153 | (1,092,567) |
| Current tax liabilities | (22,507) | 264,810 |
| Deferred tax liabilities | 411,011 | (63,995) |
| Other liabilities | 1,796,723 | (3,220,040) |
| Cash generated / (used) by operating activities | <u>(10,131,167)</u> | <u>8,061,216</u> |
| Cash flows deriving from financing activities | | |
| Capital increase | 450,000 | 749,999 |
| Capital paid in | 31,945 | - |
| Constitution / (reversal) of reserves | (383,285) | (885,066) |
| Dividends payable | 59,916 | (136,425) |
| Dividends paid | (112,821) | (205,709) |
| Interest on equity | - | (389,000) |
| Increase or decrease of participation of non-controlling shareholders | 11 | (40,518) |
| Subordinated liabilities | 2,537,441 | 1,497,129 |
| Cash generated / (used) by financing activities | <u>2,583,207</u> | <u>590,410</u> |
| Cash flow deriving from investment activities | | |
| Tangible assets | (54,650) | (50,341) |
| Intangible assets | (19,026) | (6,349) |
| Cash general / (used) by investment activities | <u>(73,676)</u> | <u>(56,690)</u> |
| Net variance of cash and cash equivalents | <u>(7,621,636)</u> | <u>8,594,936</u> |
| Cash and cash equivalents at the beginning of the fiscal year | 9,121,617 | 526,681 |
| Cash and cash equivalents at the end of the fiscal year | <u>1,499,981</u> | <u>9,121,617</u> |
| Increase / (reduction) of cash and cash equivalents | <u>(7,621,636)</u> | <u>8,594,936</u> |

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, 2010 and 2009

(In thousands of Reais)

| | 2010 | 2009 |
|--|------------------|------------------|
| Revenues | <u>2,970,795</u> | <u>2,447,265</u> |
| Interest revenue | 10,774,209 | 7,911,294 |
| Interest expense | (7,924,062) | (5,343,681) |
| Results from services and commission fees | 96,950 | (7,959) |
| Results from losses due impairment | (1,428,797) | (1,548,637) |
| Other operating revenues / (expenses) | 1,452,495 | 1,436,248 |
| Items acquired from third parties | <u>(431,407)</u> | <u>(401,598)</u> |
| Materials, energy and others | (11,602) | (8,352) |
| Third party services | (86,002) | (97,261) |
| Others | <u>(333,803)</u> | <u>(295,985)</u> |
| Communications | (102,374) | (81,591) |
| Maintenance and preservation of assets | (13,967) | (22,194) |
| Data processing | (118,137) | (107,799) |
| Promotions and public relations | (22,779) | (18,305) |
| Publications | (1,797) | (3,128) |
| Advertising and publicity | (33,841) | (19,943) |
| Financial system services | (1,038) | (733) |
| Specialized technical services | (120) | (82) |
| Transportation | (21,507) | (20,329) |
| Others | (18,244) | (21,881) |
| Gross value added | <u>2,539,388</u> | <u>2,045,667</u> |
| Amortization/depreciation expenses | (28,432) | (27,449) |
| Net value added produced by the entity | <u>2,510,956</u> | <u>2,018,218</u> |
| Value added to be distributed | <u>2,510,956</u> | <u>2,018,218</u> |
| Value added distributed | <u>2,510,956</u> | <u>2,018,218</u> |
| Personnel | <u>868,659</u> | <u>600,576</u> |
| Salaries and professional fees | 489,243 | 358,140 |
| Profit sharing | 215,430 | 124,216 |
| Benefits and training | 124,363 | 89,179 |
| FGTS (Unemployment Compensation Fund) | 39,622 | 29,041 |
| Taxes, tariffs and contributions | <u>880,483</u> | <u>615,424</u> |
| In Brazil | 880,483 | 615,424 |
| INSS (National Social Security Institute) on salaries | 121,495 | 87,838 |
| Tax expenses (except income tax and social contribution) | 519,305 | 400,371 |
| Income tax / social contribution | 239,683 | 127,215 |
| Remuneration of third party capital | <u>114,962</u> | <u>60,589</u> |
| Rent | 114,962 | 60,589 |
| Remuneration of own capital | <u>646,852</u> | <u>741,629</u> |
| Dividends/ interest on equity | 241,121 | 190,421 |
| Retained earnings | 405,731 | 551,208 |
| Minority participation in retained earnings | - | - |

The explanatory notes are constituent parts of the financial statements.

Banco Votorantim S.A.

Explanatory notes to the financial statements

As of December 31, 2010 and 2009

(In thousands of Reais)

1 Operating context

Banco Votorantim is a privately-held joint-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.

On September 28, 2009 Votorantim Finanças and Banco do Brasil completed the establishment of a strategic partnership, when Banco do Brasil became the holder of 50% of the total capital stock of Banco Votorantim. The Board of Directors is equalitarian, with 3 members designated by each institution, and chairpersonship of the Board will be alternated annually. All of the strategic decisions will be taken jointly.

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 with regard 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). These are the first financial statements prepared following the IFRS and the date of transition was January 1, 2009.

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

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 written off 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 “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 evaluation 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.

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

The Conglomerate regularly assesses if there is objective evidence that a financial asset or a group of financial assets show(s) signs of impairment of 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 evaluation 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

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

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 (parent) and of the following companies:

| | Percentage | |
|---|-------------------|-------------|
| | 2010 | 2009 |
| Controlled subsidiaries in Brazil (direct participation) | | |
| Votorantim CTVM Ltda. | 99.98 | 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 | - |
| BVIA - BV Inv. Alternativos e Gestão de Recursos S.A. | 100.00 | - |
| Controlled subsidiaries abroad (direct participation) | | |
| Votorantim Bank Limited | 100.00 | 100.00 |
| Banco Votorantim Securities Inc. | 100.00 | 100.00 |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

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

| | Percentage of participation in the total units | |
|--------------------------------|---|-------------|
| | 2010 | 2009 |
| BV Financeira FIDC I | 47.22 | 40.23 |
| BV Financeira FIDC II | 25.66 | 12.97 |
| BV Financeira FIDC III | 22.67 | 85.61 |
| BV Financeira FIDC IV | 20.77 | - |
| BV Financeira FIDC V | 36.94 | - |
| Votorantim G&K FIP | 100.00 | 100.00 |
| Fundo de Invest. Sedna Ref. DI | 100.00 | 100.00 |

Banco Votorantim and its controlled subsidiary BV Financeira hold 100% of the subordinated units of the Funds for Investment in Credit Rights (FIDCs) described in the table.

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, 2010 and 2009, the Conglomerate had no investments in affiliates.

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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.

h. Equity position of the controlled subsidiaries in Brazil

On December 31, 2010

| | Votorantim CTVM | Votorantim DTVIM | BV Financeira | BV Leasing | BVIP | BVIA |
|-----------------------|----------------------------|-----------------------------|--------------------------|-----------------------|-------------|-------------|
| Current assets | 370,883 | 39,896 | 28,824,603 | 4,823,300 | - | - |
| Long-term assets | <u>18,735</u> | <u>55,685</u> | <u>20,224,875</u> | <u>22,909,290</u> | - | - |
| Total assets | <u>389,618</u> | <u>95,581</u> | <u>49,049,478</u> | <u>27,732,590</u> | - | - |
| Current liabilities | 114,797 | 37,675 | 23,175,970 | 6,384,912 | - | - |
| Long-term liabilities | 25,104 | - | 25,094,045 | 20,135,186 | - | - |
| Stockholders' equity | <u>249,717</u> | <u>57,906</u> | <u>779,463</u> | <u>1,212,492</u> | - | - |
| Total liabilities | <u>389,618</u> | <u>95,581</u> | <u>49,049,478</u> | <u>27,732,590</u> | - | - |

On December 31, 2009

| | Votorantim CTVM | Votorantim DTVIM | BV Financeira | BV Leasing | BVIP | BVIA |
|-----------------------|----------------------------|-----------------------------|--------------------------|-----------------------|-------------|-------------|
| Current assets | 387,018 | 17,453 | 17,627,621 | 17,922,642 | - | - |
| Long-term assets | <u>63,071</u> | <u>42,158</u> | <u>12,623,812</u> | <u>8,013,547</u> | - | - |
| Total assets | <u>450,089</u> | <u>59,611</u> | <u>30,251,433</u> | <u>25,936,189</u> | - | - |
| Current liabilities | 66,122 | 21,065 | 18,136,008 | 2,705,358 | - | - |
| Long-term liabilities | 142,606 | - | 11,303,945 | 22,143,369 | - | - |
| Stockholders' equity | <u>241,361</u> | <u>38,546</u> | <u>811,480</u> | <u>1,087,462</u> | - | - |
| Total liabilities | <u>450,089</u> | <u>59,611</u> | <u>30,251,433</u> | <u>25,936,189</u> | - | - |

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i. Equity position of the controlled subsidiaries abroad

On December 31, 2010

| | VBL | BV Securities |
|-----------------------|---------------|----------------------|
| Current assets | 40,355 | 13,551 |
| Long-term assets | <u>2,054</u> | <u>350</u> |
| Total assets | <u>42,409</u> | <u>13,901</u> |
| Current liabilities | 9,007 | 529 |
| Long-term liabilities | - | - |
| Stockholders' equity | <u>33,402</u> | <u>13,372</u> |
| Total liabilities | <u>42,409</u> | <u>13,901</u> |

On December 31, 2009

| | VBL | BV Securities |
|-----------------------|---------------|----------------------|
| Current assets | 40,582 | 2,299 |
| Long-term assets | <u>-</u> | <u>-</u> |
| Total assets | <u>40,582</u> | <u>2,299</u> |
| Current liabilities | 7,212 | 395 |
| Long-term liabilities | - | - |
| Stockholders' equity | <u>33,370</u> | <u>1,904</u> |
| Total liabilities | <u>40,582</u> | <u>2,299</u> |

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j. Equity positions of the investment funds

On December 31, 2010

| | BV Financeira FIDC I | BV Financeira FIDC II | BV Financeira FIDC III | BV Financeira FIDC IV | BV Financeira FIDC V | Other Funds |
|-----------------------|-------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|-------------------------------------|------------------------|
| Current assets | 388,661 | 432,646 | 429,911 | 359,635 | 754,231 | 1,099,568 |
| Long-term assets | <u>166,569</u> | <u>185,420</u> | <u>184,248</u> | <u>154,129</u> | <u>323,242</u> | <u>471,243</u> |
| Total assets | <u>555,230</u> | <u>618,066</u> | <u>614,159</u> | <u>513,764</u> | <u>1,077,473</u> | <u>1,570,811</u> |
| Current liabilities | 577 | 912 | 282 | 186 | 1,217 | 880 |
| Long-term liabilities | - | - | - | - | - | - |
| Stockholders' equity | <u>554,653</u> | <u>617,154</u> | <u>613,877</u> | <u>513,578</u> | <u>1,076,256</u> | <u>1,569,931</u> |
| Total liabilities | <u>555,230</u> | <u>618,066</u> | <u>614,159</u> | <u>513,764</u> | <u>1,077,473</u> | <u>1,570,811</u> |

On December 31, 2009

| | BV Financeira FIDC I | BV Financeira FIDC II | BV Financeira FIDC III | BV Financeira FIDC IV | BV Financeira FIDC V | Other Funds |
|-----------------------|-------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|-------------------------------------|------------------------|
| Current assets | 413,339 | 678,135 | 4,091 | - | - | 1,547,195 |
| Long-term assets | <u>170,948</u> | <u>272,721</u> | <u>1,753</u> | - | - | - |
| Total assets | <u>584,287</u> | <u>950,856</u> | <u>5,844</u> | - | - | <u>1,547,195</u> |
| Current liabilities | 471 | 822 | - | - | - | 115,642 |
| Long-term liabilities | - | - | - | - | - | - |
| Stockholders' equity | <u>583,816</u> | <u>950,034</u> | <u>5,844</u> | - | - | <u>1,431,553</u> |
| Total liabilities | <u>584,287</u> | <u>950,856</u> | <u>5,844</u> | - | - | <u>1,547,195</u> |

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.

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On the base date the assets and liabilities of the subsidiary and of the branch located abroad are converted to the currency of presentation adopted by the Company at the exchange rate effective on the balance sheet date.

l. Offset 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. On December 31, 2010 and 2009 there were no offsets of financial instruments.

m. Authorization of the financial statements

The issuance of the financial statements was authorized by the Executive Board on April 26, 2011.

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 written off 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.

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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

Financial instruments are recorded at the cost of acquisition, with the addition of the costs of the transaction, and are classified according to the Management’s intention in four distinct categories:

- i. Financial assets at fair value through profit or loss** - A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is classified as such at the moment of initial recognition. The financial assets are designated by the 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 the Bank’s trading transactions and is presented in aggregate form for all the changes of fair value of assets held for trading in “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 and presented in the statement of income as “results of financial assets at fair value through profit or loss”.

- ii. Financial assets held to maturity** - If the Conglomerate has the intention and the capability of maintaining 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 the 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.

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- iii. Financial assets available for sale** - Financial assets available for sale are financial assets that are not classified under any one 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 by the 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 written off, the result that is accumulated in stockholders' equity is transferred to the results for the period.
- iv. 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 of fair value are recognized in the results for the period shown in the statement of income as "results of financial assets at fair value through profit or loss"

In certain circumstances the Conglomerate may reclassify financial assets from the 'held for trading' category to the 'available for sale', 'loans and receivables' or 'held to maturity' categories. The Conglomerate may also reclassify, in certain circumstances, financial instruments from the 'available for sale' category to 'loans and receivables'. Reclassifications are recorded at their fair value on the date of reclassification, thereby becoming the new amortized cost.

The Conglomerate may reclassify an asset from the 'held for trading' category to the 'loans and receivables' category if it fulfills the definition of a loan or receivable, and if the Conglomerate has the intention and capability of maintaining the financial asset for a future period or up to its maturity.

For a financial asset reclassified from the 'available for sale' category, any gain or loss from such an asset previously recognized in net equity is amortized to profit or loss in the course of the remaining useful life of the investment, using the effective interest rate. Any difference between the new amortized cost and the expected cash flow is also amortized throughout the remaining useful life of the asset using the effective interest rate.

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Reclassification is a Management option and is determined case-by-case. On December 31, 2010 and 2009, the Conglomerate did not reclassify any financial instrument.

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

- i. Market risk 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
- ii. Cash flow hedge** - The derivative financial instruments classified in this category have their adjustments to fair value recognized in stockholders’ equity as “adjustments of equity evaluation”, net of tax effects.

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.

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

d. Write-off of financial instruments

i. Financial assets

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

- The right to receive the cash flow of the asset has matured;

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- 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 written off 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 book value is recognized in profit or loss. On December 31, 2010 and 2009, 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, if there is an expectation that the hedging instruments be “highly effective” in the variances of the fair value of the relevant items that are subject-matter of hedging during the periods for which the hedge is designated, and if the actual results of the each hedge are within a range of 80-125 percent.

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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 evaluation 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”;
- Financial assets “Held to Maturity”; and
- Loans and receivables.

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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 has opted for suspend the recognition of interest of its financial instruments, measured at amortized cost, in any transaction where the borrower shows a delay of more than 90 days.

The Conglomerate first assess if there is “objective evidence of loss of recoverable value” for “assets that are individually significant” or collectively for “mass-oriented assets”.

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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 evaluations (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 appraised by the Credit Risk area on a joint basis.

If an "individually significant asset" shows one or more "objective evidence of loss", a provision is accrued for the difference between the book value 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 maintained 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).

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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, 2010 and 2009, the financial guarantees were classified as remote.

The reduction of the recoverable value of a financial asset, measured by the amortized cost, calculated based on the difference between the book value 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.

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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 written off 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. Long-term assets held for sale

The long-term assets and groups of assets held for sale are classified as intended for sale if their book value 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.

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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 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:

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- 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 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 the 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.

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The book value 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 the balance sheet date.

n. Financial liabilities at fair value through profit or loss

A financial liability is classified at the fair value through profit or loss if it is classified as held for trading and is designated as such at the moment of initial recognition. Financial liabilities are designated at fair value if the Management monitors such obligations and makes decisions of purchase and sale based on their fair values according to the documented risks and the investments strategy of the Conglomerate. After their initial recognition, the financial liabilities with pre-fixed or post-fixed remuneration are measured by their amortized cost using the effective interest method and measured by their fair value. 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 liabilities at fair value through profit or loss”. The charges calculated by the amortized cost are shown in the statement of income as “interest expense”.

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; and

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(In thousands of Reais)

- The equity position of the unit holders 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 issued 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 issued 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”.

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(In thousands of Reais)

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, whose object of contestation 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, 2010 and 2009, there were no costs directly attributable to the issuance of shares.

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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 constituted 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 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 a subsequent event to the balance sheet date.

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(In thousands of Reais)

x. *Payment based on shares*

The Bank does not have a program of payments based on shares.

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 book value of a financial asset or liability is adjusted when the Bank 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.

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(In thousands of Reais)

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. Earnings per share

The Conglomerate shows information on the basic earnings per share for its shares. The basic earnings per share are calculated by dividing the profit or loss attributable to the holders of shares by the weighted average of the number of outstanding shares during the period.

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Explanatory notes to the financial statements

(In thousands of Reais)

4 Cash and cash equivalents

| | 2010 | 2009 | 01/01/09 |
|---|------------------|------------------|----------------|
| Cash and cash equivalents | <u>150,639</u> | <u>239,925</u> | <u>98,452</u> |
| Cash | 301 | 423 | 263 |
| Bank deposits | 68,237 | 39,874 | 57,428 |
| Free reserves | - | 6,306 | - |
| Cash and cash equivalents in foreign currencies | 82,101 | 193,322 | 40,761 |
| Interbank liquidity investments | <u>1,349,342</u> | <u>8,881,692</u> | <u>428,229</u> |
| Committed trans. - Own position | 590,873 | 6,020,209 | 315,238 |
| Investments in interbank deposits | 671,142 | 2,683,667 | 112,991 |
| Investments in foreign currencies | <u>87,327</u> | <u>177,816</u> | - |
| Total | <u>1,499,981</u> | <u>9,121,617</u> | <u>526,681</u> |

5 Financial assets with resale agreement

| | 2010 | 2009 | 01/01/09 |
|---|-------------------|-------------------|------------------|
| Committed trans. - Own position | <u>1,933,743</u> | <u>1,788,524</u> | <u>567,693</u> |
| Financial Treasury Bills | - | 304,300 | - |
| Federal Treasury Bills | 224,835 | - | - |
| National Treasury Notes | 1,682,309 | 1,416,613 | - |
| Others | 26,599 | 67,611 | 567,693 |
| Committed trans. - Financed position | <u>7,792,317</u> | <u>10,438,282</u> | <u>1,855,503</u> |
| Financial Treasury Bills | - | 1,499,995 | 1,713,657 |
| Federal Treasury Bills | 5,817,573 | 3,096,890 | 141,846 |
| National Treasury Notes | 1,974,744 | 5,841,397 | - |
| Committed trans. - Short position | <u>2,530,313</u> | <u>319,294</u> | <u>1,279,217</u> |
| Financial Treasury Bills | - | 319,294 | 1,279,217 |
| National Treasury Notes | 2,530,313 | - | - |
| Total | <u>12,256,373</u> | <u>12,546,100</u> | <u>3,702,413</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

6 Financial assets

a. Financial assets at fair value through profit or loss

| | <u>2010</u> | | |
|------------------------------------|-----------------------|------------------------------|---------------------------------------|
| | Cost value | Fair value (book) | Unrealized profit / (loss) |
| In Brazil | <u>9,412,621</u> | <u>9,590,697</u> | <u>178,076</u> |
| Financial Treasury Bills | 615,130 | 617,191 | 2,061 |
| Federal Treasury Bills | 753,671 | 754,824 | 1,153 |
| National Treasury Notes | 5,770,153 | 5,806,977 | 36,824 |
| Real Estate Receipts Certif. | 7,148 | 7,148 | - |
| Debentures | 308,626 | 350,933 | 42,307 |
| Agrarian Debt Instruments | 53,981 | 55,153 | 1,172 |
| Rural Product Certificates | 457,896 | 466,384 | 8,488 |
| Promissory Notes | 31,137 | 31,119 | (18) |
| Units of Invest. Funds | 985,414 | 985,414 | - |
| FIDC Units | 96,214 | 96,214 | - |
| Shares of Publicly-Held Companies | 90,050 | 88,945 | (1,105) |
| Shares of Privately-Held Companies | 243,201 | 330,395 | 87,194 |
| Abroad | <u>3,593,380</u> | <u>3,520,663</u> | <u>(72,717)</u> |
| Foreign Governments | 1,802,020 | 1,803,016 | 996 |
| National Treasury | 279,270 | 283,821 | 4,551 |
| Others Instruments | 1,512,090 | 1,433,826 | (78,264) |
| Total | <u>13,006,001</u> | <u>13,111,360</u> | <u>105,359</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

| | 2009 | | |
|-----------------------------------|-----------------------|------------------------------|---------------------------------------|
| | Cost value | Fair value (book) | Unrealized profit / (loss) |
| In Brazil | <u>7,896,627</u> | <u>7,976,612</u> | <u>79,985</u> |
| Financial Treasury Bills | 123,820 | 123,822 | 2 |
| Federal Treasury Bills | 2,928,898 | 2,924,385 | (4,513) |
| National Treasury Notes | 3,042,919 | 3,067,930 | 25,011 |
| Debentures | 343,277 | 374,243 | 30,966 |
| Agrarian Debt Instruments | 93,998 | 99,762 | 5,764 |
| Rural Product Certificates | 384,111 | 386,187 | 2,076 |
| Promissory Notes | 437,060 | 439,042 | 1,982 |
| Units of Invest. Funds | 379,456 | 379,456 | - |
| Shares of Publicly-Held Companies | 163,088 | 181,785 | 18,697 |
| Abroad | <u>2,657,388</u> | <u>2,465,467</u> | <u>(191,921)</u> |
| Brazilian Foreign Debt | 132,520 | 142,681 | 10,161 |
| Foreign Governments | 1,233,896 | 1,231,120 | (2,776) |
| National Treasury | 451,640 | 501,381 | 49,741 |
| Other Instruments | <u>839,332</u> | <u>590,285</u> | <u>(249,047)</u> |
| Total | <u>10,554,015</u> | <u>10,442,079</u> | <u>(111,936)</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

| | 01/01/09 | | |
|-----------------------------------|-----------------------|------------------------------|---------------------------------------|
| | Cost value | Fair value (book) | Unrealized profit / (loss) |
| In Brazil | <u>9,083,140</u> | <u>9,228,882</u> | <u>145,742</u> |
| Financial Treasury Bills | 103,371 | 103,332 | (39) |
| Federal Treasury Bills | 368,294 | 372,738 | 4,444 |
| National Treasury Notes | 7,654,901 | 7,785,320 | 130,419 |
| Debentures | 279,684 | 274,639 | (5,045) |
| Agrarian Debt Instruments | 132,944 | 140,498 | 7,554 |
| Shares of Publicly-Held Companies | 14,700 | 14,422 | (278) |
| Rural Product Certificates | 529,246 | 537,933 | 8,687 |
| Abroad | <u>4,837,787</u> | <u>4,633,675</u> | <u>(204,112)</u> |
| Brazilian Foreign Debt | 226,777 | 234,215 | 7,438 |
| National Treasury | 65,363 | 66,571 | 1,208 |
| Foreign Governments | 2,506,400 | 2,545,328 | 38,928 |
| Other Instruments | 2,039,247 | 1,787,561 | (251,686) |
| Total | <u>13,920,927</u> | <u>13,862,557</u> | <u>(58,370)</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

b. Financial assets available for sale

| | 2010 | | |
|------------------------------------|-----------------------|------------------------------|---------------------------------------|
| | Cost value | Fair value (book) | Unrealized profit / (loss) |
| In Brazil | <u>8,587,295</u> | <u>8,489,177</u> | <u>(98,119)</u> |
| National Treasury Notes | 4,826,837 | 4,771,068 | (55,769) |
| Real Estate Receipts Certif. | 26,939 | 28,638 | 1,699 |
| Debentures | 1,299,780 | 1,325,597 | 25,817 |
| Units of Invest. Funds | 1,730 | 1,730 | - |
| FIDC Units | 555,366 | 555,366 | - |
| Shares of Publicly-Held Companies | 203,452 | 217,054 | 13,601 |
| Shares of Privately-Held Companies | 1,578,387 | 1,535,092 | (43,295) |
| Other shares | 6 | 6 | - |
| Tax incentive investments | 94,621 | 54,449 | (40,172) |
| Equity securities | 177 | 177 | - |
| Abroad | <u>330,127</u> | <u>307,081</u> | <u>(23,046)</u> |
| Other Instruments | <u>330,127</u> | <u>307,081</u> | <u>(23,046)</u> |
| Total | <u>8,917,422</u> | <u>8,796,258</u> | <u>(121,165)</u> |

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(In thousands of Reais)

| | 2009 | | |
|------------------------------------|-----------------------|------------------------------|---------------------------------------|
| | Cost value | Fair value (book) | Unrealized profit / (loss) |
| In Brazil | <u>4,086,738</u> | <u>3,899,474</u> | <u>(187,264)</u> |
| National Treasury Notes | 1,740,796 | 1,661,226 | (79,570) |
| Real Estate Receipts Certif. | 15,493 | 17,477 | 1,984 |
| Debentures | 1,315,233 | 1,294,968 | (20,265) |
| Promissory Notes | 14,517 | 14,860 | 343 |
| FIDC Units | 614,670 | 614,268 | (402) |
| Shares of Privately-Held Companies | 326,899 | 253,998 | (72,901) |
| Other shares | 6 | 6 | - |
| Tax incentive investments | 58,948 | 42,495 | (16,453) |
| Equity securities | 176 | 176 | - |
| Abroad | <u>1,002,766</u> | <u>924,034</u> | <u>(78,732)</u> |
| Other Instruments | <u>1,002,766</u> | <u>924,034</u> | <u>(78,732)</u> |
| Total | <u>5,089,504</u> | <u>4,823,508</u> | <u>(265,996)</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

| | 01/01/09 | | |
|---|-----------------------|------------------------------|---------------------------------------|
| | Cost value | Fair value (book) | Unrealized profit / (loss) |
| In Brazil | <u>2,079,602</u> | <u>1,909,153</u> | <u>(170,449)</u> |
| Shares of Privately-Held Companies | 210,002 | 123,196 | (86,806) |
| Debentures | 1,147,203 | 1,100,161 | (47,042) |
| Real Estate Receipts Certif. | 17,137 | 18,972 | 1,835 |
| Equity securities | 176 | 176 | - |
| Shares and units | 1,491 | 1,491 | - |
| Units of Funds for Investment in Credit Rights | 644,706 | 622,620 | (22,086) |
| Tax incentive investments | 58,887 | 42,537 | (16,350) |
| Abroad | <u>1,289,865</u> | <u>1,248,078</u> | <u>(41,787)</u> |
| Other Instruments | <u>1,289,865</u> | <u>1,248,078</u> | <u>(41,787)</u> |
| Total | <u>3,369,467</u> | <u>3,157,231</u> | <u>(212,236)</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

7 Derivative financial instruments

a. Breakdown in equity accounts

| | 2010 | 2009 | 01/01/09 |
|---|------------------|------------------|------------------|
| Assets | | | |
| Swap differences receivable | 794,567 | 904,805 | 2,268,616 |
| Currency term forward contracts | 538 | 794 | 2,128 |
| Acquisition of purchase options - Shares | 4,625 | 5,985 | 721 |
| Acquisition of selling options - Shares | 9,368 | 10,768 | 1,995 |
| Acquisition of purchase options - Fin./Comm. assets | 194,521 | 193,911 | 454,196 |
| Acquisition of selling options - Fin./Comm. Assets | 319,989 | 178,073 | 70,746 |
| Credit derivatives | 346,888 | 36,978 | 39,861 |
| Non-deliverable forwards | 114,964 | 125,069 | 603,524 |
| Foreign exchange derivatives | - | - | 1,022,423 |
| Others | <u>3,965</u> | <u>65,288</u> | <u>60,104</u> |
| Total | <u>1,789,425</u> | <u>1,521,671</u> | <u>4,524,314</u> |
| Liabilities | | | |
| Swap differences payable | 1,167,609 | 666,172 | 1,233,585 |
| Currency term forward contracts | 171 | 438 | 83,511 |
| Sale of purchase options - Shares | 3,817 | 4,170 | 2,185 |
| Sale of selling options - Shares | 2,970 | - | - |
| Sale of purchase options - Fin./Comm. assets | 260,326 | 198,731 | 520,023 |
| Sale of selling options - Fin./Comm. Assets | 89,081 | 38,831 | 112,867 |
| Credit derivatives | 181,091 | 217,601 | 3,498 |
| Non-deliverable forwards | 116,951 | 117,735 | 403,359 |
| Others | <u>72,605</u> | <u>27,790</u> | <u>5,007</u> |
| Total | <u>1,894,621</u> | <u>1,271,468</u> | <u>2,364,035</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

b. Breakdown of swap contracts by indicator

| | 2010 | | |
|------------------------------------|----------------------------|-------------------------|-----------------------|
| | Original amount | Curve amount | Fair value |
| Asset position | <u>27,276,161</u> | <u>28,964,951</u> | <u>28,880,644</u> |
| DI (Interbank Deposits) | 9,003,016 | 10,221,170 | 10,231,353 |
| Dollar | 4,913,473 | 4,633,463 | 4,676,572 |
| Euro | 152,730 | 150,550 | 151,096 |
| IGPM (General Market Price Index) | 980,573 | 1,233,364 | 1,249,515 |
| IPCA (Broad Consumer Prices Index) | 1,998,340 | 1,671,213 | 1,499,340 |
| Prefixed | 3,195,918 | 4,018,491 | 4,027,535 |
| Libor | 2,666 | 2,666 | 2,666 |
| Yen | 33,844 | 33,778 | 33,863 |
| Commodities | 6,554,554 | 6,554,614 | 6,554,592 |
| Others | 441,047 | 445,642 | 454,112 |
| Liability position | <u>27,276,161</u> | <u>29,427,280</u> | <u>29,253,686</u> |
| DI | 5,637,232 | 6,211,321 | 6,196,975 |
| Dollar | 3,345,816 | 3,255,515 | 3,267,736 |
| Euro | 140,129 | 137,640 | 138,167 |
| IGPM | 892,270 | 1,193,484 | 1,210,735 |
| IPCA | 5,589,428 | 6,013,227 | 5,922,478 |
| Prefixed | 5,026,120 | 5,961,101 | 5,861,674 |
| Libor | 2,666 | 2,666 | 2,666 |
| Yen | 33,478 | 33,978 | 34,064 |
| TJLP (Long-Term Interest Rate) | 39,247 | 44,025 | 44,025 |
| Commodities | 6,556,445 | 6,556,453 | 6,556,408 |
| Others | <u>13,330</u> | <u>17,870</u> | <u>18,758</u> |
| Net difference | <u>-</u> | <u>(462,329)</u> | <u>(373,042)</u> |

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(In thousands of Reais)

| | 2009 | | |
|---------------------------|----------------------------|-------------------------|-----------------------|
| | Original amount | Curve amount | Fair value |
| Asset position | <u>19,895,618</u> | <u>22,265,410</u> | <u>22,596,105</u> |
| DI | 7,233,833 | 8,889,063 | 8,918,926 |
| Dollar | 4,127,980 | 4,049,978 | 4,162,751 |
| Euro | 51,041 | 48,142 | 48,142 |
| IGPM | 1,646,613 | 2,001,320 | 2,041,393 |
| IPCA | 2,063,694 | 2,342,412 | 2,377,881 |
| Prefixed | 3,961,255 | 4,130,117 | 4,198,854 |
| Libor | 740,229 | 740,772 | 766,933 |
| Commodities | 6,425 | 6,222 | 6,221 |
| Others | 64,548 | 57,384 | 75,004 |
| Liability position | <u>19,895,618</u> | <u>22,072,901</u> | <u>22,357,472</u> |
| DI | 9,726,481 | 10,376,323 | 10,421,692 |
| Dollar | 3,475,934 | 3,546,516 | 3,634,817 |
| Euro | 45,594 | 44,764 | 44,705 |
| IGPM | 1,446,000 | 1,841,888 | 1,876,293 |
| IPCA | 2,531,063 | 3,459,869 | 3,523,648 |
| Prefixed | 1,309,874 | 1,448,644 | 1,471,361 |
| Libor | 1,187,527 | 1,189,729 | 1,213,892 |
| Yen | 130,590 | 126,364 | 126,395 |
| TJLP | 7,582 | 9,775 | 9,775 |
| Commodities | 15,906 | 14,632 | 18,888 |
| Others | <u>19,067</u> | <u>14,397</u> | <u>16,006</u> |
| Net difference | <u>-</u> | <u>192,509</u> | <u>238,633</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

| | 01/01/09 | | |
|--------------------------------|----------------------------|-------------------------|-----------------------|
| | Original amount | Curve amount | Fair value |
| Asset position | <u>30,495,042</u> | <u>35,655,186</u> | <u>35,290,289</u> |
| DI | 14,323,283 | 16,278,932 | 16,304,345 |
| Dollar | 6,096,457 | 7,699,042 | 7,730,859 |
| Euro | 117,483 | 123,209 | 122,006 |
| IGPM | 1,591,189 | 1,958,096 | 1,937,327 |
| IPCA | 1,515,037 | 1,703,543 | 1,727,610 |
| Prefixed | 4,423,805 | 4,761,109 | 4,374,105 |
| TRM (Monthly Referential Rate) | 30,000 | 36,940 | 36,907 |
| Libor | 932,112 | 936,711 | 934,043 |
| Yen | 912,969 | 1,470,706 | 1,471,507 |
| Lira | 394,534 | 516,602 | 525,130 |
| Commodities | 141,661 | 153,784 | 117,151 |
| Others | 16,512 | 16,512 | 9,299 |
| Liability position | <u>30,495,042</u> | <u>34,652,393</u> | <u>34,255,258</u> |
| DI | 8,764,224 | 10,075,608 | 10,082,110 |
| Dollar | 9,877,469 | 10,453,300 | 10,533,350 |
| Euro | - | - | - |
| IGPM | 1,487,749 | 1,927,004 | 1,889,864 |
| IPCA | 2,484,391 | 3,334,835 | 3,343,623 |
| Prefixed | 3,057,769 | 3,255,089 | 2,850,627 |
| TRM | 130,903 | 167,339 | 168,888 |
| Libor | 2,045,693 | 2,057,750 | 2,047,908 |
| Yen | 647,512 | 1,029,492 | 1,030,935 |
| Lira | 1,798,140 | 2,182,646 | 2,147,113 |
| Commodities | 182,859 | 149,224 | 147,898 |
| TJLP | 11,169 | 12,942 | 12,942 |
| Others | 7,164 | 7,164 | - |
| Net difference | <u>-</u> | <u>1,002,793</u> | <u>1,035,031</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

c. Breakdown of term forward contracts

| | 2010 | | |
|---------------------------------|------------------------|---------------------|-------------------|
| | Original amount | Curve amount | Fair value |
| Assets position | | | |
| Currency term forward contracts | <u>16,778</u> | <u>538</u> | <u>538</u> |
| Total | <u>16,778</u> | <u>538</u> | <u>538</u> |
| Liability position | | | |
| Currency term forward contracts | <u>17,955</u> | <u>171</u> | <u>171</u> |
| Total | <u>17,955</u> | <u>171</u> | <u>171</u> |
| | 2009 | | |
| | Original amount | Curve amount | Fair value |
| Assets position | | | |
| Currency term forward contracts | <u>49,823</u> | <u>794</u> | <u>794</u> |
| Total | <u>49,823</u> | <u>794</u> | <u>794</u> |
| Liability position | | | |
| Currency term forward contracts | <u>2,443</u> | <u>438</u> | <u>438</u> |
| Total | <u>2,443</u> | <u>438</u> | <u>438</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

| | <u>01/01/09</u> | | |
|---------------------------------|----------------------------|-------------------------|-----------------------|
| | Original amount | Curve amount | Fair value |
| Assets position | | | |
| Currency term forward contracts | <u>83,674</u> | <u>2,128</u> | <u>2,128</u> |
| Total | <u>83,674</u> | <u>2,128</u> | <u>2,128</u> |
| Liability position | | | |
| Currency term forward contracts | <u>560,197</u> | <u>83,511</u> | <u>83,511</u> |
| Total | <u>560,197</u> | <u>83,511</u> | <u>83,511</u> |

d. Breakdown of option agreements by indicator

| | <u>2010</u> | |
|----------------------|------------------------------|------------------------------|
| | Contracted amount | Fair value (book) |
| Long position | | |
| Dollar | 6,166,038 | 156,175 |
| Index | 510,845,318 | 1,977 |
| IDI | 150 | 344,231 |
| Shares | 105,605 | 13,993 |
| Commodities | 359,138 | 856 |
| Flexible | <u>4,775,598</u> | <u>11,271</u> |
| Total | <u>522,251,847</u> | <u>528,503</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

| | <u>2010</u> | |
|-----------------------|------------------------------|------------------------------|
| | Contracted amount | Fair value (book) |
| Short position | | |
| Dollar | 12,021,032 | 69,964 |
| Index | 473,687,131 | 162,696 |
| IDI | - | - |
| Shares | 391,400 | 6,787 |
| Commodities | 165,325 | 225 |
| Flexible | <u>6,672,349</u> | <u>116,522</u> |
| Total | <u>492,937,237</u> | <u>356,194</u> |
| | <u>2009</u> | |
| | Contracted amount | Fair value (book) |
| Long position | | |
| Dollar | 9,553,212 | 224,695 |
| Index | 5,997,500 | 68,311 |
| IDI | 255 | 4,023 |
| Shares | 75,482 | 16,753 |
| Commodities | 477,178 | 47,483 |
| Flexible | <u>842,192</u> | <u>27,472</u> |
| Total | <u>16,945,819</u> | <u>388,737</u> |
| Short position | | |
| Dollar | 12,174,306 | 96,632 |
| Index | 5,959,000 | 73,668 |
| IDI | 110 | 890 |
| Shares | 88,900 | 4,170 |
| Commodities | 99,044 | 613 |
| Flexible | <u>1,541,807</u> | <u>65,759</u> |
| Total | <u>19,863,167</u> | <u>241,732</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

| | <u>01/01/09</u> | |
|-----------------------|------------------------------|------------------------------|
| | Contracted amount | Fair value (book) |
| Long position | | |
| Dollar | 111,252 | 341,912 |
| Index | 471 | 241 |
| IDI | 11,163 | 65,762 |
| Shares | 1,354 | 2,716 |
| Commodities | 166,722 | 106 |
| Instruments | 670,203 | 45,525 |
| Flexible | <u>277,833</u> | <u>71,396</u> |
| Total | <u>1,238,998</u> | <u>527,658</u> |
| Short position | | |
| Dollar | 305,703 | 480,205 |
| Index | 8,082 | 72,640 |
| IDI | 3,138 | 8,225 |
| Shares | 1,354 | 2,185 |
| Commodities | 166,722 | 30,300 |
| Flexible | <u>216,874</u> | <u>41,520</u> |
| Total | <u>701,873</u> | <u>635,075</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

e. Breakdown of the forward contracts by indicator

| | 2010 | 2009 | 01/01/09 |
|----------------------------|---------------------|---------------------|---------------------|
| Purchase commitment | <u>43,775,963</u> | <u>11,322,292</u> | <u>16,689,461</u> |
| DDI | 8,549,436 | 2,264,526 | 7,539,487 |
| Euro | - | 20,215 | 83,674 |
| Dollar | 2,138,363 | 1,803,152 | 519,486 |
| DI | 31,853,930 | 3,827,339 | 6,577,129 |
| Commodities | - | - | 27,218 |
| T-Note | 54,118 | 392,910 | 258,436 |
| Index | - | 37,706 | 1,100,949 |
| BGI | 288,956 | - | - |
| SCC | 891,160 | 2,976,444 | - |
| Others | <u>-</u> | <u>-</u> | <u>583,082</u> |
| Selling commitment | <u>96,154,057</u> | <u>48,826,317</u> | <u>41,343,515</u> |
| DDI | 7,344,453 | 6,375,377 | 8,892,467 |
| Euro | 212,282 | - | 77,160 |
| Dollar | 807,292 | 1,414,522 | 4,097,286 |
| DI | 85,483,888 | 37,372,083 | 25,510,249 |
| Commodities | 829,039 | 687,384 | - |
| T-Note | 588,117 | - | 168,011 |
| BGI | - | 75 | - |
| SCC | 887,060 | 2,976,876 | - |
| Others | <u>1,926</u> | <u>-</u> | <u>2,598,342</u> |
| Net difference | <u>(52,378,094)</u> | <u>(37,504,025)</u> | <u>(24,654,054)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

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

| | <u>2010</u> | |
|-----------------------|------------------------------|------------------------------|
| | Contracted amount | Fair value (book) |
| Assets | | |
| Dollar | 2,430,964 | 36,899 |
| Euro | 1,020 | 2,434 |
| Prefixed | - | - |
| Others | <u>22,324</u> | <u>75,631</u> |
| Total | <u>2,454,308</u> | <u>114,964</u> |
| Liability | | |
| Dollar | 1,502,367 | 89,665 |
| Euro | 29,399 | 2,325 |
| Others | <u>1,099</u> | <u>24,961</u> |
| Total | <u>1,532,865</u> | <u>116,951</u> |
| Net difference | <u>921,443</u> | <u>(1,987)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

| | 2009 | |
|-----------------------|--------------------------|--------------------------|
| | Contracted amount | Fair value (book) |
| Assets | | |
| Dollar | 1,443,905 | 81,644 |
| Euro | 20,542 | 564 |
| Prefixed | 757,422 | 42,861 |
| Others | <u>-</u> | <u>-</u> |
| Total | <u>2,221,869</u> | <u>125,069</u> |
| Liability | | |
| Dollar | 2,420,668 | 117,583 |
| Euro | 53 | 1 |
| Other | <u>-</u> | <u>151</u> |
| Total | <u>2,420,721</u> | <u>117,735</u> |
| Net difference | <u>(198,852)</u> | <u>7,334</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

| | <u>01/01/09</u> | |
|------------------|------------------------------|------------------------------|
| | Contracted amount | Fair value (book) |
| Assets | | |
| Dollar | 4,076,394 | 590,689 |
| Euro | 12,684 | 1,564 |
| Prefixed | <u>4,205,101</u> | <u>11,271</u> |
| Total | <u>8,294,179</u> | <u>603,524</u> |
| Liability | | |
| Dollar | 1,633,938 | 275,642 |
| Euro | 84,400 | 15,408 |
| Prefixed | 2,182,313 | 11,272 |
| Lira | <u>579,998</u> | <u>101,037</u> |
| Total | <u>4,480,649</u> | <u>403,359</u> |

g. Credit derivatives

| | <u>2010</u> | |
|-------------------------|-----------------------------|-------------------------|
| | Reference amount | Market value |
| Risk received | | |
| Credit swaps | <u>5,393,489</u> | <u>(6,090)</u> |
| Total | <u>5,393,489</u> | <u>(6,090)</u> |
| Risk transferred | | |
| Credit swaps | 5,393,489 | 1,111 |
| Credit linked notes | 141,027 | 147,544 |
| Equity linked notes | <u>9,164</u> | <u>9,315</u> |
| Total | <u>5,543,680</u> | <u>157,970</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

| | 2009 | |
|-------------------------|-------------------------|---------------------|
| | Reference amount | Market value |
| Risk received | | |
| Credit swaps | <u>4,030,878</u> | <u>36,978</u> |
| Total | <u>4,030,878</u> | <u>36,978</u> |
| Risk transferred | | |
| Credit swaps | 4,030,878 | 7,190 |
| Credit linked notes | 197,574 | 210,412 |
| Equity linked notes | <u>8,010</u> | <u>8,251</u> |
| Total | <u>4,236,462</u> | <u>225,853</u> |
| | | |
| | 01/01/09 | |
| | Reference amount | Market value |
| Risk received | <u>3,657,405</u> | <u>39,861</u> |
| Credit swaps | 3,657,405 | 39,861 |
| Transferred risk | <u>46,740</u> | <u>3,498</u> |
| Credit swaps | 46,740 | 3,498 |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

h. Credit derivatives by indicator

| | 2010 | | |
|---------------------------|------------------------|---------------------|---------------------|
| | Original amount | Curve amount | Market value |
| Assets position | | | |
| Others | <u>5,393,489</u> | <u>(6,090)</u> | <u>(6,090)</u> |
| Total | <u>5,393,489</u> | <u>(6,090)</u> | <u>(6,090)</u> |
| Liability position | | | |
| Prefixed | 150,191 | 156,859 | 156,859 |
| Others | <u>5,393,489</u> | <u>1,111</u> | <u>1,111</u> |
| Total | <u>5,543,680</u> | <u>157,970</u> | <u>157,970</u> |
| Net difference | <u>(150,191)</u> | <u>(164,060)</u> | <u>(164,060)</u> |
| | 2009 | | |
| | Original amount | Curve amount | Market value |
| Asset position | | | |
| Other | <u>4,030,878</u> | <u>36,978</u> | <u>36,978</u> |
| Total | <u>4,030,878</u> | <u>36,978</u> | <u>36,978</u> |
| Liability position | | | |
| Prefixed | 205,584 | 218,663 | 218,663 |
| Others | <u>4,030,878</u> | <u>7,190</u> | <u>7,190</u> |
| Total | <u>4,236,462</u> | <u>225,853</u> | <u>225,853</u> |
| Net difference | <u>(205,584)</u> | <u>(188,875)</u> | <u>(188,875)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

| | <u>01/01/09</u> | | |
|---------------------------|----------------------------|-------------------------|-------------------------|
| | Original amount | Curve amount | Market value |
| Assets position | | | |
| Prefixed | <u>3,704,145</u> | <u>26,824</u> | <u>39,861</u> |
| Total | <u>3,704,145</u> | <u>26,824</u> | <u>39,861</u> |
| Liability position | | | |
| Prefixed | <u>3,704,145</u> | <u>211</u> | <u>3,498</u> |
| Total | <u>3,704,145</u> | <u>211</u> | <u>3,498</u> |
| Net difference | <u> -</u> | <u>26,613</u> | <u>36,363</u> |

8 Loans and receivables

a. Breakdown of the transactions

| | 2010 | 2009 | 01/01/09 |
|---|-------------------|-------------------|-------------------|
| Advances to depositors | 784 | 305 | 254 |
| Loans | 14,116,706 | 11,186,800 | 10,862,169 |
| Discounted trade bills | 27,080 | 23,060 | 21,844 |
| Financing | 33,715,406 | 23,424,921 | 15,954,964 |
| Export financing | 2,638,709 | 3,128,748 | 4,309,812 |
| Financing in foreign currency | 270,727 | 187,308 | 331,916 |
| Rural financing | 1,333,247 | 558,611 | 312,307 |
| Real estate financing | 110,277 | - | - |
| Infrastructure and development financing | - | - | 3,829,309 |
| Advances on foreign exchange contracts | 537,799 | 449,699 | 1,078,047 |
| Financial leasing transactions | 4,391,145 | 4,011,481 | 1,471,414 |
| Credits assigned with co-liability | 11,237,178 | 5,019,771 | 1,548,725 |
| Credits assigned without co-liability - FIDC | 2,226,650 | 1,127,909 | 1,433,449 |
| Others | <u>23,553</u> | <u>11,321</u> | <u>382,518</u> |
| Total transactions with characteristics of granting of credit | <u>70,629,261</u> | <u>49,129,934</u> | <u>41,536,728</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

| | 2010 | 2009 | 01/01/09 |
|--|--------------------|--------------------|-------------------|
| Other receivables | 8,159,737 | 296,806 | 3,233,581 |
| Associated costs | 1,059,062 | 743,232 | 93,969 |
| Provision for losses due to impairment | <u>(1,052,182)</u> | <u>(1,044,932)</u> | <u>(603,304)</u> |
| Total loans and receivables | <u>78,795,878</u> | <u>49,125,040</u> | <u>44,260,974</u> |

b. Breakdown of other receivables

| | 2010 | 2009 | 01/01/09 |
|---|------------------|----------------|------------------|
| Investments in interbank deposits | 1,399,268 | - | 2,802,445 |
| Deposits with Central Bank | 6,212,534 | 69,496 | 32,015 |
| Interbank onlendings | 72,219 | 12,984 | |
| Relations with correspondents | 25,670 | 10,514 | 5,883 |
| Earnings receivable | 27,674 | 16,304 | 11,964 |
| Amounts receivable from related companies | 7,149 | 7,229 | 38,433 |
| Credit card transactions | 188,660 | 113,817 | - |
| Settlement of Instruments Abroad | 191,156 | - | - |
| Trading and intermediation of securities | 33,531 | 52,271 | 261,765 |
| Others | <u>1,876</u> | <u>14,191</u> | <u>81,076</u> |
| Total | <u>8,159,737</u> | <u>296,806</u> | <u>3,233,581</u> |

c. Accrual of the provision for losses due to impairment

| | 2010 | 2009 | 01/01/09 |
|-----------------------|--------------------|--------------------|------------------|
| Loans and receivables | (998,514) | (1,027,902) | (602,465) |
| Assigned credits | <u>(53,668)</u> | <u>(17,030)</u> | <u>(839)</u> |
| Total | <u>(1,052,182)</u> | <u>(1,044,932)</u> | <u>(603,304)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

d. Loans and receivables subject to hedge accounting

| | 2010 | | | 2009 | | |
|-----------------------|-------------------|-------------------|------------------------------|-------------------|-------------------|------------------------------|
| | Cost amount | Fair value | Unrealized earnings / (loss) | Cost amount | Fair value | Unrealized earnings / (loss) |
| Loans and receivables | <u>38,645,311</u> | <u>38,971,119</u> | <u>325,808</u> | <u>26,902,679</u> | <u>27,434,629</u> | <u>531,950</u> |
| Total | <u>38,645,311</u> | <u>38,971,119</u> | <u>325,808</u> | <u>26,902,679</u> | <u>27,434,629</u> | <u>531,950</u> |

Hedge accounting strategies

As protection from risks of prefixed interest rate of loans, financing and financial leasing agreements, the Conglomerate traded in the forwards market for DIs in the BM&FBOVESPA (Commodities & Futures Exchange Brokerage), according to the flow of maturity of the installments.

As protection from risks of foreign exchange (Dollar) variance for export financing, the Conglomerate traded in the forwards market for DDI and SCC in the BM&FBOVESPA, according to the flow of maturity of the installments.

9 Current tax assets

| | 2010 | 2009 | 01/01/09 |
|---|------------------|----------------|----------------|
| Income tax to compensate | 671,194 | 382,147 | 197,412 |
| Social contribution to compensate | 340,253 | 205,600 | 120,774 |
| PIS (Social Integration Program) to compensate | 15,477 | 8,725 | 526 |
| COFINS (Social Contribution for Financing of Social Security) to compensate | 71,496 | 39,675 | 3,476 |
| Other assets | <u>2,569</u> | <u>43,159</u> | <u>9</u> |
| Total | <u>1,100,989</u> | <u>679,306</u> | <u>322,197</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

10 Deferred tax assets

a. Breakdown of deferred tax assets

| | 2010 | 2009 | 01/01/09 |
|--|------------------|------------------|------------------|
| IR (income tax) losses | 833,828 | 503,960 | 214,357 |
| CS (Social Contribution) negative base | 56,788 | 73,099 | 128,615 |
| Adjustment to fair value of financial assets | 3,972 | 54,119 | 34,889 |
| Adjustment o fair value of derivatives | 2,720 | - | - |
| Profit sharing | - | 116 | 46,542 |
| Provision for losses due to impairment | 775,298 | 649,200 | 424,437 |
| Provisions | 43,475 | 28,361 | 24,558 |
| Derivatives – non accrual | 1,600 | 16,536 | 502,000 |
| Legal obligations | 223,003 | 223,001 | - |
| Results of branches abroad | 94,488 | 94,488 | - |
| Others | <u>5,509</u> | <u>4,252</u> | <u>(82,949)</u> |
| Total | <u>2,040,681</u> | <u>1,647,132</u> | <u>1,292,449</u> |

b. Deferred tax assets activity in the period

| | 2010 | 2009 | 01/01/09 |
|--|------------------|------------------|------------------|
| Beginning balance | <u>1,647,132</u> | <u>1,292,449</u> | <u>395,737</u> |
| IR (income tax) tax loss | 329,867 | 262,087 | 196,543 |
| CS (Social Contribution) negative base | (16,311) | (28,001) | 117,927 |
| Adjustment to fair value of financial assets | (50,146) | 22,001 | (30,718) |
| Adjustment o fair value of derivatives | 806 | (291,109) | - |
| Profit sharing | (114) | 17,508 | 46,543 |
| Provision for losses due to impairment | 126,099 | (378,051) | 156,919 |
| Provisions | 15,115 | (18,514) | 7,501 |
| Derivatives – non accrual | (14,936) | 502,084 | 484,946 |
| Legal obligations | - | 220,371 | - |
| Results of branches abroad | - | 94,488 | - |
| Others | <u>3,169</u> | <u>(48,181)</u> | <u>(82,949)</u> |
| Ending balance | <u>2,040,681</u> | <u>1,647,132</u> | <u>1,292,449</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

c. Expectation of realization of deferred tax assets

| | 2010 Book value |
|--------------|--------------------------------|
| In 2011 | 922,521 |
| In 2012 | 509,129 |
| In 2013 | 228,068 |
| In 2014 | 67,589 |
| In 2015 | 89,789 |
| As from 2015 | <u>223,585</u> |
| Total | <u>2,040,681</u> |

| | 2009 Book value |
|--------------|--------------------------------|
| In 2010 | 470,282 |
| In 2011 | 400,814 |
| In 2012 | 367,019 |
| In 2013 | 42,962 |
| In 2014 | 90,989 |
| In 2015 | 55,840 |
| As from 2015 | <u>219,226</u> |
| Total | <u>1,647,132</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

11 Long-term assets held for sale

| | 2010 | 2009 | 01/01/09 |
|------------------------|---------------|---------------|---------------|
| Assets not for own use | 87,330 | 64,316 | 51,203 |
| Other assets | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>87,330</u> | <u>64,316</u> | <u>51,203</u> |

12 Other assets

| | 2010 | 2009 | 01/01/09 |
|--|------------------|----------------|------------------|
| Foreign exchange purchased to be settled | 1,221,375 | 332,175 | 1,449,409 |
| Rights of sale of foreign exchange | 643,639 | 51,870 | 1,224,599 |
| Advances in local/foreign currency received | (585,205) | (25,473) | (13,356) |
| Record and settlement cash | 17,118 | 1,100 | - |
| Settlement account debtors outstanding | 4,408 | - | 238,202 |
| Financial assets and commodity transactions to be settled | 46,627 | 66,416 | - |
| Salary advances | 3,079 | 21,951 | 2,166 |
| Advances to suppliers | 2,755 | - | - |
| Guarantee deposit debtors | 125,180 | 36,967 | 23,489 |
| Insurance expenses | 1,163 | - | - |
| Data processing expenses | 3,075 | - | - |
| Financial system service expenses | 4,929 | 10,616 | - |
| Specialized technical service expenses | 15,291 | - | - |
| Others | <u>107,015</u> | <u>106,174</u> | <u>697,453</u> |
| Total | <u>1,610,449</u> | <u>601,796</u> | <u>3,621,962</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

13 Tangible assets

| | <u>2010</u> | | | <u>2009</u> | <u>01/01/09</u> |
|--|----------------|---------------------------------------|----------------|-----------------|-----------------|
| | <u>Cost</u> | <u>Depreciation/ amortization</u> | <u>Net</u> | <u>Net</u> | <u>Net</u> |
| Fixed assets in construction | 111 | - | 111 | 111 | - |
| Installations | 18,568 | (1,522) | 17,046 | 1,528 | 2,310 |
| Furniture and equipment for use | 49,258 | (14,286) | 34,972 | 30,296 | 14,928 |
| Communications system | 11,806 | (6,097) | 5,709 | 6,218 | 8,385 |
| Data processing system | 68,630 | (42,148) | 26,482 | 18,703 | 27,151 |
| Security system | 2,202 | (524) | 1,678 | 932 | 214 |
| Transportation system | 1,672 | (1,236) | 436 | 315 | 898 |
| Leased assets | - | - | - | - | - |
| Improvements to third party properties | <u>83,860</u> | <u>(39,966)</u> | <u>43,894</u> | <u>43,875</u> | <u>17,169</u> |
| Total | <u>236,107</u> | <u>(105,779)</u> | <u>130,328</u> | <u>101,978</u> | <u>71,055</u> |
| | | | | 2010 | 2009 |
| Beginning balance | | | | 101,978 | 71,055 |
| Acquisitions | | | | 72,985 | 58,900 |
| Retirements | | | | (18,335) | (8,559) |
| Depreciation/amortization | | | | <u>(26,300)</u> | <u>(19,418)</u> |
| Ending balance | | | | <u>130,328</u> | <u>101,978</u> |

On December 31, 2010 and 2009, no existence of relevant assets was identified that could indicate loss due to impairment.

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

14 Intangible assets

| | 2010 | | Net | 2009 | 01/01/09 |
|--|---------------|--------------------------|---------------|----------------|----------------|
| | Cost amount | Accumulated amortization | | Net | Net |
| BMF&Bovespa SISBEX (dollar trading system) | 200 | - | 200 | 200 | - |
| Software without physical substance | 3,069 | (681) | 2,388 | 1,282 | 6,831 |
| Licenses | 10,066 | (2,231) | 7,835 | 3,667 | - |
| Commercialization rights agreement | 5,000 | (415) | 4,585 | - | - |
| Corporate projects | <u>7,035</u> | <u>-</u> | <u>7,035</u> | <u>-</u> | <u>-</u> |
| Total | <u>25,370</u> | <u>(3,327)</u> | <u>22,043</u> | <u>5,149</u> | <u>6,831</u> |
| | | | | 2010 | 2009 |
| Beginning balance | | | | 5,149 | 6,831 |
| Acquisitions | | | | 19,026 | 6,349 |
| Retirements | | | | - | - |
| Amortization | | | | <u>(2,132)</u> | <u>(8,031)</u> |
| Ending balance | | | | <u>22,043</u> | <u>5,149</u> |

On December 31, 2010 and 2009, no existence of relevant assets was identified that could indicate loss due to impairment.

15 Financial liabilities at fair value through profit or loss

| | 2010 | | | 2009 | | | 01/01/09 |
|-----------------------------|------------------|-------------------|----------------------------|----------------|-------------------|----------------------------|-------------------|
| | Cost amount | Fair value (book) | Unrealized profit / (loss) | Cost amount | Fair value (book) | Unrealized profit / (loss) | Fair value (book) |
| In Brazil | | | | | | | |
| Committed transactions - | | | | | | | |
| Free activity | 2,595,165 | 2,599,011 | (3,846) | 345,882 | 348,585 | (2,703) | 1,891,024 |
| Creditors for loaned shares | <u>25,565</u> | <u>24,966</u> | <u>599</u> | <u>30,404</u> | <u>32,643</u> | <u>(2,239)</u> | <u>12,234</u> |
| Total | <u>2,620,730</u> | <u>2,623,977</u> | <u>(3,247)</u> | <u>376,286</u> | <u>381,228</u> | <u>(4,942)</u> | <u>1,903,258</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

16 Financial liabilities at amortized cost

| | 2010 | 2009 | 01/01/09 |
|--|-------------------|-------------------|-------------------|
| Committed transactions - Own portfolio | <u>24,821,784</u> | <u>14,690,313</u> | <u>12,820,979</u> |
| Financial Treasury Bills | 368,918 | - | 100,697 |
| Federal Treasury Bills | 579,083 | 45,795 | 219,964 |
| National Treasury Notes | 5,257,535 | 200,977 | 2,741,540 |
| Others | 18,616,248 | 14,443,541 | 9,758,778 |
| Committed transactions - Third party portfolios | <u>6,860,675</u> | <u>9,634,060</u> | <u>1,822,006</u> |
| Financial Treasury Bills | - | 1,499,998 | 1,724,721 |
| Federal Treasury Bills | 5,761,542 | 2,328,127 | - |
| National Treasury Notes | 1,099,133 | 5,805,935 | 97,285 |
| Options box | <u>2,315,982</u> | <u>3,279,559</u> | <u>1,192,365</u> |
| Fixed income strategy | <u>2,315,982</u> | <u>3,279,559</u> | <u>1,192,365</u> |
| Total | <u>33,998,441</u> | <u>27,603,932</u> | <u>15,835,350</u> |

17 Financial liabilities associated with transferred assets

| | 2010 | 2009 | 01/01/09 |
|-------------------|-------------------|------------------|------------------|
| Assignees | 12,862,398 | 5,884,165 | 1,646,839 |
| FIDC unit holders | 2,269,478 | 1,131,568 | 1,607,784 |
| Other liabilities | <u>204,868</u> | <u>139,630</u> | - |
| Total | <u>15,336,744</u> | <u>7,155,363</u> | <u>3,254,623</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

18 Financial institution deposits

| | 2010 | 2009 | 01/01/09 |
|--------------------|----------------|------------------|------------------|
| Interbank deposits | <u>726,266</u> | <u>1,741,042</u> | <u>4,182,084</u> |
| Total | <u>726,266</u> | <u>1,741,042</u> | <u>4,182,084</u> |

19 Client deposits

| | 2010 | 2009 | 01/01/09 |
|-----------------|-------------------|-------------------|-------------------|
| Demand deposits | 308,931 | 134,294 | 108,567 |
| Term deposits | 22,562,609 | 22,599,913 | 14,635,917 |
| Other deposits | <u>150</u> | <u>1,672</u> | <u>5,366</u> |
| Total | <u>22,871,690</u> | <u>22,735,879</u> | <u>14,749,850</u> |

20 Loans and onlendings

| | 2010 | 2009 | 01/01/09 |
|---|-------------------|------------------|-------------------|
| Loans in Brazil | | | |
| With foreign exchange variance (a) | 21,357 | 186,589 | 323,815 |
| Loans Abroad | | | |
| With foreign exchange variance (b) | 4,237,430 | 2,163,337 | 6,174,009 |
| Onlendings in Brazil - National Treasury | | | |
| Post-fixed (c) | 73,338 | - | - |
| Onlendings in Brazil - BNDES (National Economic and Social Development Bank) | | | |
| Post-fixed (d) | 4,081,327 | 3,503,274 | 2,992,912 |
| Onlendings in Brazil - FINAME (Government for Machinery and Equipment Financing) | | | |
| Post-fixed (e) | <u>2,841,028</u> | <u>1,449,555</u> | <u>1,194,203</u> |
| Total | <u>11,254,480</u> | <u>7,302,755</u> | <u>10,684,939</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

- (a) Restatement rate in 2010: 7.10 % p.a. + foreign exchange variance.
 (b) Restatement rate in 2010: 0.50% p.a. to 17.5% p. a + foreign exchange variance.
 (c) Restatement rate in 2010: 6.75% p.a.
 (d) Restatement rate in 2010: 1.30% p.a. to 11% p.a. + TJLP or foreign exchange variance /
 Restatement rate in 2009: 2.75% p.a. to 16.55% p.a. +TJLP or foreign exchange variance.
 (e) Restatement rate in 2010: 0.30% p.a. to 17.5% p.a. or TJPL /Restatement rate in 2009: 4.55%
 p.a. to 11.00% p.a. +TJLP

21 Securities issued

| | | 2010 | 2009 | 01/01/09 |
|--|-----|-------------------|------------------|------------------|
| Debentures | | | | |
| With foreign exchange variance | (a) | 2,521,877 | 2,503,331 | 2,486,072 |
| Post-fixed | (b) | 1,446,441 | 1,313,451 | 1,191,034 |
| Funds of Real Estate Credit Bills | | | | |
| Post-fixed | (c) | 4,632 | 106,311 | 19,696 |
| Funds of Agribusiness Credit Bills | | | | |
| Post-fixed | (d) | 1,789,518 | 1,818,264 | 1,489,982 |
| Financial Bills | | | | |
| Post-fixed | (e) | 13,644 | - | - |
| Post-fixed | (f) | 2,593,316 | - | - |
| TVM (Securities and Bonds) Obligations Abroad | | | | |
| Post-fixed | (g) | 369,806 | - | - |
| With foreign exchange variance | (h) | <u>2,513,648</u> | <u>1,394,800</u> | <u>1,403,490</u> |
| Total | | <u>11,252,882</u> | <u>7,136,157</u> | <u>6,590,274</u> |

- (a) Restatement rate in 2010 and 2009: PTAX + 4.96% p.a.
 (b) Restatement rate in 2010: DI + 0.35% p.a.; Restatement rate in 2009: DI + 0.35% p.a.
 (c) and (d) Restatement rate in 2010: Restatement rate correspond to 90% of the CDI;
 Restatement rate in 2009: currently corresponds 90% of the DI.
 (e) and (f) Restatement rate in 2010: 100% to 108.10% of the CDI
 (g) Restatement rate in 2010: from 9.25% p.a. to 10.63% p.a.
 (h) Restatement rate in 2010: from 1.10% p.a. to 6.75% p.a. + foreign exchange variance.

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Explanatory notes to the financial statements

(In thousands of Reais)

Instruments that are subject to hedge accounting

| | 2010 | | | 2009 | | |
|------------------------|------------------|------------------|-------------------------|------------------|------------------|-------------------------|
| | Cost amount | Fair value | Unrealized gain/ (loss) | Cost amount | Fair value | Unrealized gain/ (loss) |
| TVM obligations abroad | <u>2.877.050</u> | <u>2.883.454</u> | <u>(6.404)</u> | <u>1.387.006</u> | <u>1.394.800</u> | <u>(7.794)</u> |
| Total | <u>2.877.050</u> | <u>2.883.454</u> | <u>(6.404)</u> | <u>1.387.006</u> | <u>1.394.800</u> | <u>(7.794)</u> |

Hedge accounting strategies

As protection from the risks of foreign exchange (Dollar) variance of the TVM obligations abroad, the Conglomerate traded in the forwards market for DDI in the BM&FBOVESPA, according to the flow of maturity of the installments.

22 Subordinated liabilities

| | | 2010 | 2009 | 01/01/09 |
|-------------------------------------|-----|------------------|------------------|------------------|
| Subordinated financial bills | | | | |
| Post-fixed | (c) | 304,964 | - | - |
| Bank deposit certificate | | | | |
| Post-fixed | (a) | 3,262,539 | 2,927,815 | 1,394,933 |
| Debentures | | | | |
| Post-fixed | (b) | 1,451,075 | 1,439,006 | 1,474,759 |
| Subordinated notes | | | | |
| With foreign exchange variance | (d) | <u>1,885,684</u> | - | - |
| Total | | <u>6,904,262</u> | <u>4,366,821</u> | <u>2,869,692</u> |

(a) Restatement rate in 2010: 0.49% p.a. up to 7.95% p.a. + CDI

(b) Restatement rate in 2010 and 2009: 0.50% p.a. + CDI

(c) Restatement rate in 2010 and 2009: 0.30% p.a. up to 17.50% p.a. + TJPL

(d) Restatement rate in 2010: 7.38% p.a. + PTAX

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Explanatory notes to the financial statements

(In thousands of Reais)

Subordinated liabilities subject to hedge accounting

| | 2010 | | | 2009 | | |
|-------------------|------------------|------------------|-------------------------|-------------|------------|-------------------------|
| | Cost amount | Fair value | Unrealized gain/ (loss) | Cost amount | Fair value | Unrealized gain/ (loss) |
| Subordinated note | <u>1,986,505</u> | <u>1,885,684</u> | <u>100,821</u> | - | - | - |
| Total | <u>1,986,505</u> | <u>1,885,684</u> | <u>100,821</u> | = | = | = |

Hedge accounting strategies

As protection from the risks of foreign exchange (Dollar) variance of the subordinated liabilities, the Conglomerate traded in the forwards market for DDI in the BM&FBOVESPA, according to the flow of maturity of the installments.

23 Provisions

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

| | | 2010 | 2009 | 01/01/09 |
|-----------------------|-----|----------------|---------------|---------------|
| Tax contingencies | (a) | 6,413 | 12,169 | 12,830 |
| Civil contingencies | (b) | 23,290 | 31,102 | 21,909 |
| Labor contingencies | (c) | <u>83,988</u> | <u>38,058</u> | <u>23,029</u> |
| Ending balance | | <u>113,691</u> | <u>81,329</u> | <u>57,768</u> |

(a) In 2010 basically concerning issues involving ISS (Municipal Service Tax), amounting to R\$1.255, and IRPJ/Summer Plan, amounting to R\$3.959.

(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.

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Explanatory notes to the financial statements

(In thousands of Reais)

On account of the stage in which the liability contingencies are in, and based on the Management's judgment, the final outcome of these actions cannot be determined at this time, making it impossible to determine the expected timeframe for any future cash flow developments.

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

| | <u>Tax proceedings</u> | | <u>Civil proceedings</u> | | <u>Labor proceedings</u> | |
|--------------------------|------------------------|---------------|--------------------------|---------------|--------------------------|---------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Beginning balance | <u>12,169</u> | <u>12,830</u> | <u>31,102</u> | <u>21,909</u> | <u>38,058</u> | <u>23,029</u> |
| Accruals/(Reversals) | (6,361) | (1,701) | (7,812) | 9,193 | 45,930 | 15,029 |
| Write-offs | - | - | - | - | - | - |
| Actualizations | 605 | 1,040 | - | - | - | - |
| Ending balance | <u>6,413</u> | <u>12,169</u> | <u>23,290</u> | <u>31,102</u> | <u>83,988</u> | <u>38,058</u> |

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

| | | 2010 | 2009 |
|-----------------------|-----|----------------|----------------|
| Tax contingencies | (a) | 400,183 | 159,100 |
| Civil contingencies | (b) | 37,934 | 17,773 |
| Labor contingencies | (c) | <u>2,891</u> | <u>27,267</u> |
| Ending balance | | <u>441,008</u> | <u>204,140</u> |

(a) In 2010 basically refers to taxes on demutualization, amounting to R\$383,873.

(b) Basically refers to actions of collection.

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

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Explanatory notes to the financial statements

(In thousands of Reais)

d. In-court deposits

| | 2010 | 2009 | 2008 |
|---------------------|----------------|---------------|---------------|
| Tax contingencies | 77,384 | 8,821 | 7,510 |
| Civil contingencies | 27,799 | 17,858 | - |
| Labor contingencies | 19,790 | 10,184 | 6,531 |
| Others | <u>207</u> | <u>104</u> | <u>9,448</u> |
| Total | <u>125,180</u> | <u>36,967</u> | <u>23,489</u> |

24 Current tax liabilities

| | 2010 | 2009 | 01/01/09 |
|--|----------------|----------------|-----------------|
| Taxes and contributions on income payable | 517,666 | 559,074 | 266,427 |
| Taxes and contributions on third party services | 12,312 | 8,025 | 3,306 |
| Taxes and contributions on salaries | 6,672 | 4,125 | 10,624 |
| Taxes and contributions on financial investments | 34,180 | 31,859 | 47,273 |
| PIS | 9,453 | 13,965 | 3,165 |
| COFINS | 7,234 | 2,385 | 3,798 |
| ISS | 8,377 | 5,027 | 4,167 |
| Other taxes and contributions | <u>15,746</u> | <u>9,687</u> | <u>30,577</u> |
| Total | <u>611,640</u> | <u>634,147</u> | <u>369,337</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

25 Deferred tax liabilities

a. Breakdown of deferred tax liabilities

| | 2010 | 2009 | 2008 |
|--|------------------|----------------|----------------|
| Adjustment of financial assets to fair value | 80,222 | 11,236 | 190,704 |
| Adjustment of derivatives to fair value | 150,366 | 138,057 | - |
| Adjustments of loans and receivables to fair value | 130,323 | 153,973 | - |
| Derivatives - Cash system | 11,833 | 42,922 | 309,431 |
| Supervenient depreciation | 791,962 | 407,507 | 82,958 |
| Others | - | - | <u>234,597</u> |
| Ending balance | <u>1,164,706</u> | <u>753,695</u> | <u>817,690</u> |

b. Activity of deferred tax liabilities

| | 2010 | 2009 |
|--|------------------|----------------|
| Beginning balance | 753,695 | 817,690 |
| Adjustment of financial assets to fair value | 68,986 | (46,457) |
| Adjustment of derivatives to fair value | 71,115 | (501,609) |
| Adjustments of loans and receivables to fair value | (82,457) | 125,730 |
| Derivatives - Cash system | (31,089) | (167,013) |
| Supervenient depreciation | 384,456 | 324,549 |
| Others | - | <u>200,805</u> |
| Ending balance | <u>1,164,706</u> | <u>753,695</u> |

26 Legal obligations

Basically concerns a dispute on non-payment of COFINS based on revenues that do not derive from monthly billings (broadening of the calculation base introduced by Law No. 9.718/98).

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

27 Other liabilities

| | 2010 | 2009 | 01/01/09 |
|--|------------------|------------------|------------------|
| Third party funds in transit | 32,040 | 33,704 | - |
| Internal transfers of funds | 3 | 5,882 | - |
| Collection of tax and similar revenues | 24,292 | 18,668 | - |
| Foreign exchange sold to be settled | 641,385 | 51,879 | 1,510,027 |
| Financed imports - Contracted foreign exchange | - | - | (9,188) |
| Obligations due to purchases of foreign exchange | 1,252,142 | 385,489 | 1,906,205 |
| Record and settlement cash | 95 | 4,637 | 1,188 |
| Commission and brokerage fees payable | 1,408 | 921 | - |
| Outstanding creditors' settlement account | 52,778 | 18,878 | 206,438 |
| Transactions with financial assets and commodities to be settled | 10,899 | 1,617 | 288,958 |
| Provision for profit sharing | 251,330 | 66,035 | 134,564 |
| Bonuses and profit sharing payable | 19 | 100,090 | 1,741 |
| Provision for personnel expenses | 68,383 | 32,530 | 26,390 |
| Provision for administrative expenses | 69,726 | 48,525 | 30,780 |
| Commissions for intermediation of transactions | 107,102 | 60,395 | - |
| Credit card transactions | 194,023 | 120,477 | 75 |
| Settlement of instruments abroad | 209,935 | 22,621 | - |
| Credit and leasing transactions to be released | 30,657 | 155,433 | 21,832 |
| Others (a) | <u>192,927</u> | <u>214,640</u> | <u>443,451</u> |
| Total | <u>3,139,144</u> | <u>1,342,421</u> | <u>4,562,461</u> |

(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 81,538,822,950 shares, which are fully subscribed and paid up, of which 66,713,582,406 are registered common shares with no par value and 14,825,240,544 are registered preferred shares with no par value.

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Explanatory notes to the financial statements

(In thousands of Reais)

| | Common | Preferred |
|------------------------------------|-----------------------|-----------------------|
| Number in January 1 2009 | <u>74,126,202,673</u> | <u>-</u> |
| Converted shares (a) | (7,412,620,267) | 7,412,620,267 |
| Subscribed shares (b) | - | 7,412,620,277 |
| Treasury stock | <u>-</u> | <u>-</u> |
| Number on December 31, 2009 | <u>66,713,582,406</u> | <u>14,825,240,544</u> |
| Converted shares | - | - |
| Subscribed shares | - | - |
| Treasury stock | <u>-</u> | <u>-</u> |
| Number on December 31, 2010 | <u>66,713,582,406</u> | <u>14,825,240,544</u> |
| Number per shareholder | | |
| Votorantim Finanças | 33,356,791,208 | 7,412,620,264 |
| Banco do Brasil | 33,356,791,198 | 7,412,620,274 |
| Others | - | 6 |
| Percentage per shareholder | | |
| Votorantim Finanças | 50.00000001% | 49.99999995% |
| Banco do Brasil | 49.99999999% | 50.00000001% |
| Others | - | 0.00000004% |

(a) According to the strategic partnership established between Banco do Brasil and Votorantim Finanças, conversion of common shares into preferred shares was effected involving 7,412,620,267 shares.

(b) According to the strategic partnership established between Banco do Brasil and Votorantim Finanças, Banco do Brasil acquired 7,412,620,277 new preferred shares issued by BV for the amount of R\$1.2 billion, of which R\$750 million was paid immediately and R\$450 million was paid in this fiscal year.

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(In thousands of Reais)

b. Breakdown of the reserves

| | 2010 | 2009 | 01/01/09 |
|-------------------------|------------------|------------------|------------------|
| Capital reserves | 585,104 | 617,049 | 31,946 |
| Profit reserves | 3,340,989 | 3,045,477 | 3,188,914 |
| Legal reserve | 394,583 | 343,821 | 303,732 |
| Reserve for expansion | <u>2,946,406</u> | <u>2,701,656</u> | <u>2,885,182</u> |
| Total reserves | <u>3,926,093</u> | <u>3,662,526</u> | <u>3,220,860</u> |

Pursuant to the Special Shareholders' Meeting held on December 22, 2010, allocation was resolved and approved for the balances of the capital reserves accrued by subventions of tax incentives and actualization of equity securities for the increase of capital, amounting to R\$31,945.

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

| | 2010 | | 2009 | | 01/01/09 |
|---|----------------------|------------------|----------------------|----------------|----------------------|
| | Stockholders' equity | Net income | Stockholders' equity | Net income | Stockholders' equity |
| Balance in BRGAAP | <u>8,388,936</u> | <u>1,015,247</u> | <u>7,145,467</u> | <u>801,773</u> | <u>6,402,803</u> |
| Revenues associated with funding | (93,647) | 99,946 | (193,593) | 99,945 | (293,538) |
| Assignment of credits with co-liability, net of tax effects | (685,798) | (386,269) | (299,529) | (299,780) | 251 |
| Provision for losses due to impairment, net of tax effects | 188,638 | (89,697) | 278,335 | 141,129 | 137,206 |
| Other adjustments, net of tax effects | 7,834 | 7,636 | 1,208 | (2,477) | 860 |
| Balance in IFRS | <u>7,805,963</u> | <u>646,863</u> | <u>6,931,888</u> | <u>740,590</u> | <u>6,247,582</u> |

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Summary of the main differences between BRGAAP and IFRS:

Revenues associated with funding - In BRGAAP 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 with co-liability - In the course of its activities, the Conglomerate carries out transactions that result in the transfer of financial assets to third parties. However the credit risks of such transactions are substantially retained. In BRGAAP the assignment of credit transactions are booked through recognition of the result at the moment of conduction of the assignment, irrespective of whether or not the risk is retained. For IFRS, the 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.

Provision for losses due to impairment - In BRGAAP 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 BRGAAP, 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.

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d. Dividends

The shareholders are assured a minimum compulsory dividend corresponding to 25% of the income, calculated based on the corporate accounting for the period, after deduction of the legal reserve. The Management proposes the distribution of dividends on the income of the same corporate base for the period.

| | 2010 | 2009 |
|-------------------------|-----------------|-----------------|
| Net income by BRGAAP | 1,015,247 | 801,773 |
| Legal reserve | <u>(50,762)</u> | <u>(40,089)</u> |
| Calculation base | <u>964,485</u> | <u>761,684</u> |
| Interest on equity | - | - |
| Dividends payable | <u>241,121</u> | <u>190,421</u> |
| Amount proposed | <u>241,121</u> | <u>190,421</u> |
| % of calculation base | <u>25%</u> | <u>25%</u> |

e. Adjustments of book value recognized in stockholders' equity

| | 2010 | 2009 |
|--|-----------------|-----------------|
| Beginning balance | (81,990) | (100,307) |
| Financial assets available for sale | | |
| Banco Votorantim | 24,900 | (37,782) |
| Tax effects | <u>3,706</u> | <u>56,099</u> |
| Ending balance | <u>(53,384)</u> | <u>(81,990)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

29 Interest revenues

| | 2010 | 2009 |
|--|-------------------|------------------|
| Advances to depositors | 26 | 14 |
| Loans | 2,083,807 | 1,461,117 |
| Discounted trade bills | 4,904 | 7,142 |
| Financing | 5,190,275 | 4,174,048 |
| Export financing | 291,534 | (571,119) |
| Financing in foreign currency | (25,412) | (9,884) |
| Rural financing | 75,468 | 39,671 |
| Real estate financing | 176 | - |
| Rights from loans of shares | 10,863 | 343 |
| Foreign exchange transactions | 5,238 | (287,767) |
| Financial leasing | 344,806 | 356,967 |
| Credits for corporate/personal guarantees and other guarantees | 30 | 192 |
| Investments in committed transactions | 1,388,481 | 1,682,163 |
| Investments in interbank deposits | 112,835 | 178,378 |
| Investments in foreign currencies | 5,782 | 9,995 |
| Assigned credits | 950,885 | 859,632 |
| Others | <u>334,511</u> | <u>10,402</u> |
| Total | <u>10,774,209</u> | <u>7,911,294</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

30 Interest expenses

| | 2010 | 2009 |
|-------------------------------------|--------------------|--------------------|
| Committed transactions | (3,180,669) | (2,622,791) |
| Expenses with assignees | (709,507) | (350,120) |
| Interbank deposits | (75,647) | (355,595) |
| Term deposits | (2,483,528) | (1,821,972) |
| Other deposits | - | (173,457) |
| Loans in Brazil | (2,924) | (52,304) |
| Loans abroad | 171,282 | 1,015,954 |
| National Treasury onlendings | (1,499) | - |
| BNDES onlendings | (253,905) | (49,238) |
| FINAME onlendings | (115,996) | (278,538) |
| Obligations to bankers abroad | (4,404) | (22,090) |
| Debentures | (588,757) | (499,008) |
| Funds of Real Estate Credit Bills | (3,462) | (5,037) |
| Funds of Agribusiness Credit Bills | (146,748) | (154,730) |
| Financial Bills | (113,574) | - |
| Options box - fixed income strategy | (287,052) | (177,220) |
| Obligations for TVM abroad | (95,841) | 220,197 |
| Others | <u>(31,831)</u> | <u>(17,732)</u> |
| Total | <u>(7,924,062)</u> | <u>(5,343,681)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

31 Revenues from services and commission fees

| | 2010 | 2009 |
|--|------------------|------------------|
| Banking fees | 945,623 | 607,655 |
| Administration of investment funds | 109,819 | 81,987 |
| Collection revenues | 6,030 | 2,175 |
| Commissions from placement of securities | 77,543 | 43,601 |
| Brokerage fees from stock exchange transactions | 30,092 | 29,248 |
| Revenues from guarantees pledged | 144,032 | 118,285 |
| Credit card transactions | 13,055 | 4,547 |
| Insurance brokerage fees | 42,279 | 5,989 |
| Financial advisory | 19,925 | 25,316 |
| Reimbursement of fees for intermediation of transactions | 1,299,092 | 1,430,180 |
| Others | <u>4,012</u> | <u>23,465</u> |
| Total | <u>2,691,502</u> | <u>2,372,448</u> |

32 Expenses from services and commission fees

| | 2010 | 2009 |
|---|--------------------|--------------------|
| Financial system services | (181,612) | (134,099) |
| Specialized technical services | (572,427) | (304,239) |
| Credit card transactions | (10,478) | (4,348) |
| Commissions from intermediation of transactions | (1,695,687) | (1,839,447) |
| Others | <u>(134,348)</u> | <u>(98,274)</u> |
| Total | <u>(2,594,552)</u> | <u>(2,380,407)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

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

| | 2010 | 2009 |
|---|------------------|------------------|
| Financial assets and liabilities | 2,568,658 | 1,016,006 |
| Adjustment of fair value of loans and receivables | <u>(139,104)</u> | <u>343,216</u> |
| Total | <u>2,429,554</u> | <u>1,359,222</u> |

34 Results from derivative financial instruments

| | 2010 | 2009 |
|--------------------|--------------------|-----------------|
| Swap contracts | (497,254) | 952,983 |
| Term contracts | (8,248) | (28,776) |
| Forward contracts | (767,434) | (521,273) |
| Option contracts | (28,025) | (115,329) |
| NDF contracts | (18,673) | 204,640 |
| Credit derivatives | 18,691 | 46,498 |
| Others | <u>(1,885)</u> | <u>(16,534)</u> |
| Total | <u>(1,302,828)</u> | <u>522,209</u> |

35 Results of losses due to impairment

| | 2010 | 2009 |
|---|--------------------|--------------------|
| (Accrual) / reversals of provision for losses | (1,347,474) | (1,388,561) |
| Recovery of credits written off to loss | 192,743 | 135,377 |
| Discounts granted for renegotiation | <u>(274,066)</u> | <u>(295,453)</u> |
| Total | <u>(1,428,797)</u> | <u>(1,548,637)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

36 Personnel expenses

| | 2010 | 2009 |
|-------------------|------------------|------------------|
| Professional fees | (27,060) | (25,511) |
| Benefits | (118,362) | (84,779) |
| Welfare charges | (161,117) | (116,879) |
| Earnings | (462,183) | (332,629) |
| Training | <u>(6,002)</u> | <u>(4,400)</u> |
| Total | <u>(774,724)</u> | <u>(564,198)</u> |

37 Other administrative expenses

| | 2010 | 2009 |
|--|------------------|------------------|
| Water, electricity and gas | (5,041) | (4,618) |
| Rent | (110,142) | (57,942) |
| Leasing of assets | (4,821) | (2,647) |
| Communications | (102,374) | (81,591) |
| Charitable contributions | (7,461) | (9,479) |
| Maintenance and preservation of assets | (13,967) | (22,194) |
| Materials | (6,561) | (3,734) |
| Data processing | (118,137) | (107,799) |
| Promotions and public relations | (22,779) | (18,305) |
| Advertising and publicity | (33,841) | (19,943) |
| Publications | (1,797) | (3,128) |
| Insurance | (17,747) | (9,201) |
| Financial system services | (1,038) | (733) |
| Third party services | (20,840) | (42,310) |
| Vigilance and security | (3,990) | (2,950) |
| Transportation | (21,507) | (20,329) |
| Travel | (35,968) | (36,436) |
| Court and notary public service fees | (664) | (606) |
| Others | <u>(17,694)</u> | <u>(18,242)</u> |
| Total | <u>(546,369)</u> | <u>(462,187)</u> |

Banco Votorantim S.A.

Explanatory notes to the financial statements

(In thousands of Reais)

38 Depreciation and amortization expenses

| | 2010 | 2009 |
|--------------|-----------------|-----------------|
| Amortization | (13,534) | (16,161) |
| Depreciation | <u>(14,898)</u> | <u>(11,288)</u> |
| Total | <u>(28,432)</u> | <u>(27,449)</u> |

39 Tax expenses

| | 2010 | 2009 |
|--------|------------------|------------------|
| ISS | (62,882) | (45,774) |
| PIS | (48,687) | (39,223) |
| COFINS | (300,436) | (237,955) |
| Others | <u>(107,300)</u> | <u>(77,419)</u> |
| Total | <u>(519,305)</u> | <u>(400,371)</u> |

40 Results from sale of long-term assets

| | 2010 | 2009 |
|---------------------|----------------|----------------|
| Sale of assets | 226,688 | (61,567) |
| Sale of investments | <u>116</u> | <u>59,230</u> |
| Total | <u>226,804</u> | <u>(2,337)</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

41 Other operating expenses

| | 2010 | 2009 |
|--------------------------------------|------------------|------------------|
| Provision for contingent liabilities | (38,850) | (10,212) |
| Monetary restatement of liabilities | 30,662 | (19,828) |
| Others | <u>(198,758)</u> | <u>(487,250)</u> |
| Total | <u>(206,946)</u> | <u>(517,290)</u> |

42 Income tax and contribution expenses

a. Charges payable on the operations

| | 2010 | 2009 |
|---|------------------|------------------|
| Income before income tax and social contribution of the participations | <u>1,101,965</u> | <u>993,060</u> |
| Charges at the effective nominal rate | <u>(440,786)</u> | <u>(397,224)</u> |
| Exclusions/(additions) | <u>175,161</u> | <u>(129,003)</u> |
| IR (income tax) tax loss | (329,867) | (262,088) |
| CS (Social Contribution) negative base | 16,311 | 28,001 |
| Adjustment to fair value of financial assets | 119,538 | (62,220) |
| Adjustment to fair value of derivatives | (20,598) | (210,500) |
| Adjustment to fair value of loans and receivables | (28,480) | (2,626) |
| Profit sharing | 39,539 | (17,508) |
| Provision for losses due to impairment | (106,035) | (288,579) |
| Provisions | (15,620) | 18,514 |
| Derivatives - Cash system | (16,153) | 149,371 |
| Supervenient/Insufficient depreciation | 384,456 | 324,549 |
| Legal obligations | - | (220,371) |
| Results of branches abroad | (23,686) | (94,488) |
| Non-taxable interest on financial assets | 103,627 | 96,380 |
| Others | <u>52,129</u> | <u>412,560</u> |
| Current income taxes and contributions | <u>(265,625)</u> | <u>(526,227)</u> |

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Explanatory notes to the financial statements

(In thousands of Reais)

b. Deferred income tax with effects on results

| Deferred tax assets | 2010 | 2009 |
|---|------------------|------------------|
| Additions/(exclusions) | | |
| IR (income tax) tax loss | 329,867 | 262,088 |
| CS (Social Contribution) negative base | (16,311) | (28,001) |
| Adjustment to fair value of financial assets | (31,010) | 142,095 |
| Adjustment to fair value of derivatives | 806 | (96,830) |
| Profit sharing | (114) | 17,508 |
| Provision for losses due to impairment | 126,098 | (378,051) |
| Provisions | 15,620 | (18,514) |
| Derivatives - Cash system | (14,936) | 502,084 |
| Legal obligations | - | 220,371 |
| Results of branches abroad | - | 94,488 |
| Others | <u>3,111</u> | <u>(384,479)</u> |
| Total | <u>413,131</u> | <u>332,759</u> |
| Deferred tax liabilities | 2010 | 2009 |
| Additions/(exclusions) | | |
| Adjustment to fair value of financial assets | (45,164) | (87,705) |
| Adjustment to fair value of derivatives | (71,115) | 449,703 |
| Adjustment to fair value of loans and receivables | 82,457 | (41,386) |
| Derivatives - Cash system | 31,089 | 70,190 |
| Supervenient/Insufficient depreciation | <u>(384,456)</u> | <u>(324,549)</u> |
| Total | <u>(387,189)</u> | <u>66,253</u> |

43 Related parties

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 involving Banco Votorantim and its controlled subsidiaries have been eliminated and also take into account the absence of risk.

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Explanatory notes to the financial statements

(In thousands of Reais)

a. Summary of transactions with related parties

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

| | Banco do Brasil (a) | | Votorantim (b) | |
|---|----------------------------|-------------|-----------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Assets | | | | |
| Cash and cash equivalents | 22,539 | - | - | - |
| Financial assets | - | - | 900 | - |
| Derivative financial instruments | 707,429 | 46,504 | 20 | 3,033,109 |
| Other assets | 1,167,390 | 21,798 | - | 12 |
| Liabilities | | | | |
| Deposits | 203,915 | - | 84,566 | 3,381 |
| Financial liabilities at amortized cost | 269,865 | - | 876,325 | 2,553,379 |
| Securities issued | 278,048 | - | - | - |
| Derivative financial instruments | 2,808,640 | 80,849 | 61,125 | 138,696 |
| Other liabilities | 1,231,566 | 4,705 | 64,297 | - |
| Revenues | | | | |
| Interest revenue | 53,857 | 776 | 64 | - |
| Derivative financial instruments | 15,200 | 4,408 | 565,971 | 157,919 |
| Other operating revenues | - | 4,370 | - | - |
| Expenses | | | | |
| Interest expense | 43,390 | 166,174 | 191,964 | 317,321 |
| Derivative financial instruments | 52,529 | 13,019 | 169,014 | - |
| Other operating expenses | 310 | 1,688 | - | - |

(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.

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(In thousands of Reais)

b. Remuneration of key Management personnel

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

| | 2010 | 2009 |
|-------------------|----------------|----------------|
| Professional fees | 27,060 | 25,511 |
| Bonuses | 74,654 | 73,400 |
| Welfare charges | <u>31,023</u> | <u>30,168</u> |
| Total | <u>132,737</u> | <u>129,079</u> |

44 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 of credit aimed at the retail segment such as, for example, personal credit and financing of vehicles;
- **Wholesale** - Transactions with characteristics of granting of credit and structured transactions aimed at the non-retail segment;

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- **Others** - Includes transactions related to the management of third party funds, transactions related to brokerage of stock, instruments, bonds, commodities and other non-relevant transactions that cannot be allocated on reasonable bases.

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:

| <i>In R\$ million</i> | 12/31/2010 | | |
|--|-------------------|------------------|---------------|
| | Retail | Wholesale | Others |
| Financial Revenues and Expenses | 3,654 | 1,133 | 100 |
| Provision for losses due to impairment | (1,174) | (132) | - |
| Administrative and personnel expenses | (769) | (518) | - |
| Tax expenses | (364) | (120) | - |

45 Risk management

Risk management has policies that adhere to best market practices and are in line with the guidelines defined by the National Monetary Council (“CMN”). Its scope is within the ambit of the institutions that make up the Votorantim Financial Conglomerate.

Policies, procedures and management systems have been implemented that are capable of managing, assessing and mitigating the risks inherent to its businesses, providing the Management with a vision of all the risks.

A Risk Management Committee has been created and subordinated to it are three commissions, one aimed at the management of market risk, another to act as a manager of credit risk and a third one focused on the management of operating risk.

The Assets and Liabilities Management Committee (“ALM”) has the responsibility of conducting strategic management of capital and of the balance sheet. The monitoring of the liquidity risk is conducted by a specific Commission, which is subordinate to this Committee.

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(In thousands of Reais)

a. Market risk

Market risk is defined as being the possibility of occurrence of losses resulting from fluctuation of the market values of the positions held. Management is conducted in a centralized form by an area that maintains independence in relation to the operations desk.

The basic procedures adopted for management of this risk are: (a) integrity in the price of assets and derivatives; (b) risk assessment by the Value at Risk methodology and through simulation of scenarios; and (c) monitoring of daily results with tests of adhesion to the methodology (back-test).

The Conglomerate carries out transactions that involve derivative financial instruments, acting in the organized and over-the-counter markets, with the purpose of enabling risk market management that is adequate for its policy. These instruments are used for the hedging of positions, in order to meet the demand of counterparties and as a means of reversal of positions in moments of major fluctuations.

b. Operating risk

Operating risk is defined as the possibility of occurrence of losses resulting from the failure, deficiency or inadequacy of internal processes, people and systems, or of external events. It also includes the legal risk associated with the inadequacy or deficiency in agreements executed by the institution, as well as sanctions due to failure to comply with legal provisions and indemnities for damages to third parties deriving from the activities carried out.

The management process begins with the application of proprietary methodology for the mapping of risks. The stages of the management are: the identification, assessment, monitoring, control and mitigation of the risks, communication and an action plan.

The combination of the actions of mapping and monitoring the risks with the information obtained from the records of the losses incurred enables continual improvement in the policies and procedures adopted, as well as the reduction of the existing risks.

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(In thousands of Reais)

In addition, it is mandatory to record on the database system of operating losses and of operating risk management the events occurred in the institutions. This procedure has the primary purpose of developing a database to be used for the calculation of allocation of capital to cover the operating risk, as provided in the Basel II agreement, but gives rise to the supply of information that is sufficient for identification of the causes of such risks.

c. Credit risk

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.

As part of the process of credit risk management, monitoring of the policies, rules for processes and established limits is conducted, as well as analysis of the risks and submission to the levels of authority and to the approving committees. The credit policy is developed based on analysis of the internal indicators of the portfolio and of the processes of pricing and assessment of companies, and on external factors, related to the financial condition of the companies and to the economic environment in the country and abroad.

The Conglomerate conducts assessments of the credit risk of the operations, determined by using judgmental and statistical models. 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 and sectors analyses that influence the management of limits up to the management and control of guarantees.

The credit cycle consists of the following stages:

- 1- Credit Proposal
- 2- Assessment of the Credit Risk
- 3- Granting of the Credit
- 4- Origination of the Transaction
- 5- Monitoring
- 6- Collection of the Transaction
- 7- Recovery

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The Executive Board has delegated the responsibility for credit risk management to the Credit Department, which is responsible for supervision of the credit risk, including:

- Formulation of credit policies jointly with the business units, including the requirements of guarantees, assessment of credit, classification of risk and presentation of reports, legal and documental procedures, as well as compliance with normative and statutory requirements.
- Establishment of the structure of limits of authority for approval and renewal of credit facilities. The limits of authority are defined for the Credit Executive Officers of the business units. Significant credit facilities must be approved by the Credit Area, the Credit Executive Officer, and the Credit Committee or by the Executive Board - whichever is most appropriate.
- Revision and assessment of the credit risk. The Credit Area assesses all of the credit exposure in excess of the established limits, before the credit facilities are released to the clients by the business unit in question. The renewals and revisions of credit facilities are subject to the same revision process.
- Limitation of concentration of exposure by counterparties, geographical areas and industrial sectors, ranges of credit classification, market liquidity and country.
- Development and maintenance of the risk classification of the Bank in order to classify the exposures according to the level of risk of financial loss faced and focus the management on the inherent risks.
- Offering counseling, orientation and specialized techniques to the business units to promote the best practices by the entire Group in the management of credit risk.

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(In thousands of Reais)

The book value of the financial assets represents the maximum credit exposure. The maximum credit exposure on the date of the financial statements was:

| | 2010 | 2009 |
|---|--------------------|-------------------|
| Cash and cash equivalents | 1,499,981 | 9,121,617 |
| Financial assets with agreement of resale | 12,256,373 | 12,546,100 |
| Financial assets at fair value through profit or loss | 13,111,360 | 10,442,079 |
| Financial assets available for sale | 8,796,258 | 4,823,508 |
| Derivatives financial instruments | 1,789,425 | 1,521,671 |
| Loans and receivables | <u>78,795,878</u> | <u>49,125,040</u> |
| Total | <u>116,249,275</u> | <u>87,580,015</u> |

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

| | 2010 | 2009 |
|---------------|-------------------|-------------------|
| Domestic | 70,581,990 | 48,455,627 |
| United States | 28,271 | 669,413 |
| Denmark | 18,365 | - |
| Others | <u>635</u> | <u>4,894</u> |
| Total | <u>70,629,261</u> | <u>49,129,934</u> |

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

| | 2010 | 2009 |
|-------------------|-------------------|-------------------|
| Retail clients | 50,930,459 | 32,721,420 |
| Wholesale clients | <u>19,698,802</u> | <u>16,408,514</u> |
| Total | <u>70,629,261</u> | <u>49,129,934</u> |

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(In thousands of Reais)

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

| | 2010 | 2009 |
|--------------------------------|-------------------|-------------------|
| Ten major debtors | 3,129,462 | 3,941,376 |
| Fifty next major debtors | 4,570,739 | 5,016,564 |
| One hundred next major debtors | 3,625,949 | 3,173,054 |
| Other clients | <u>59,303,111</u> | <u>36,998,940</u> |
| Total | <u>70,629,261</u> | <u>49,129,934</u> |

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

| | 2010 | 2009 |
|----------------------------|-------------------|-------------------|
| Legal entities | <u>20,174,947</u> | <u>15,767,703</u> |
| State public sector | <u>77,018</u> | <u>156,887</u> |
| Services | 77,018 | 156,833 |
| Financial intermediaries | - | 54 |
| Private sector | <u>20,097,929</u> | <u>15,610,816</u> |
| Industry | 9,641,526 | 8,416,231 |
| Commerce | 3,283,583 | 2,151,246 |
| Rural | 1,313,368 | 558,595 |
| Services | 5,859,452 | 4,466,754 |
| Financial intermediaries | - | 17,990 |
| Individuals | <u>50,454,314</u> | <u>33,362,231</u> |
| Total | <u>70,629,261</u> | <u>49,129,934</u> |

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(In thousands of Reais)

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:

| | 2010 | 2009 |
|-----------------------------|-------------------|-------------------|
| Overdue installments | | |
| As of 15 days | <u>826,384</u> | <u>1,181,738</u> |
| Installments due | | |
| Up to 90 days | 14,554,872 | 7,183,259 |
| From 91 to 360 days | 18,244,766 | 13,409,682 |
| From 1 to 3 years | 29,991,385 | 20,122,415 |
| From 3 to 5 years | 6,867,665 | 5,203,990 |
| Over 5 years | <u>144,189</u> | <u>2,028,850</u> |
| Total | <u>70,629,261</u> | <u>49,129,934</u> |

The Bank holds guarantees for loans and receivables with characteristics of granting of credit in the form of mortgages on properties, securities and other guarantees. The table below shows the amount of these guarantees:

| | 2010 | 2009 |
|-----------------------|-------------------|-------------------|
| Tangible assets | 645,025 | 670,860 |
| Financial instruments | 14,015,107 | 9,471,439 |
| Others | <u>4,444,109</u> | <u>3,880,478</u> |
| Total | <u>19,104,241</u> | <u>14,022,777</u> |

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

| | 2010 | 2009 |
|--------------------------|------------------|------------------|
| Beginning balance | <u>1,044,932</u> | <u>603,304</u> |
| Accrual/(reversals) | 1,347,474 | 1,388,561 |
| Write-offs to loss | (1,397,611) | (946,147) |
| Others | <u>57,387</u> | <u>(786)</u> |
| Ending balance | <u>1,052,182</u> | <u>1,044,932</u> |

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Based on the historical default rates, the Conglomerate believes that no provision for loss due to impairment is necessary in relation to the loans and receivables of performing or non-performing clients with installments overdue for up to 90 days; 94.8% of the total balance, which includes the amount owed by the most important clients of the Conglomerate.

During 2010 the Conglomerate renegotiated R\$8,906,615 (R\$6,199,852 in 2009) of loans and receivables with characteristics of granting of credit. This amount considers renegotiation of performing and non-performing agreements. In the same period the Conglomerate recovered R\$192,743 (R\$135,377 in 2009) that had been written off to loss.

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 of the persons responsible for the operation and is subject to analysis by the Assets and Liabilities Management 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 Bank 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 Bank also are other factors taken into consideration. The policies of the Bank in relation to management and allocation of capital are analyzed regularly by the Executive Board.

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Regulatory capital

The Central Bank of Brazil is the regulating agency that establishes and monitors the capital norms for the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank during the period.

The position of the regulating capital of the Conglomerate on December 31, 2010 and 2009 is shown below:

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(In thousands of Reais)

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.

| | 2010 | 2009 |
|-----------------------------------|-------------------|------------------|
| Total Referential Equity (PR) | <u>11,844,719</u> | <u>9,151,629</u> |
| Level I Referential Equity | 8,405,405 | 7,108,438 |
| Level II Referential Equity | 3,439,314 | 2,043,191 |
| Required Referential Equity (PRE) | <u>9,945,507</u> | <u>7,771,228</u> |
| Pepr | 8,759,342 | 6,617,578 |
| Pcam | - | - |
| Pjurs | 725,540 | 752,007 |
| Pcom | 2,010 | 1,360 |
| Pacs | 41,682 | 22,761 |
| Popr | 416,933 | 377,522 |
| Excess Referential Equity | <u>1,899,212</u> | <u>1,380,401</u> |
| Index (PR x 100)/(PRE/0.11) | <u>13.1%</u> | <u>13.0%</u> |

e. Liquidity risk

Liquidity risk is the risk of the Bank facing difficulties to perform obligations associated with financial liabilities that are settled with spot cash payments or with other financial assets. The Bank's approach to the management of liquidity is of ensuring to the maximum extent possible that it can perform its obligations as each one matures, under both normal and stressful conditions, without causing unacceptable losses or incurring the risk of jeopardizing the reputation of the Conglomerate.

The cash flow is prepared by the risk area to monitor the current financial position of the Bank, and is sent to the executive officer responsible. Regular daily stress tests are conducted with a variety of scenarios in normal and more severe market conditions. The contingency plan considers the strategies and procedures that are necessary to at least conduct the equilibrium of its capability of payment, taking into account the potential imbalances identified in the stress tests and in the various scenarios.

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(In thousands of Reais)

f. Management of assets and liabilities

The Assets and Liabilities Management Committee (ALM) 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 contractual maturities of assets and liabilities are shown below:

| | 2010 | | | | | |
|--|-------------------|------------------------|----------------------|----------------------|-------------------|--------------------|
| | 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 | 1,499,981 | - | - | - | - | 1,499,981 |
| Financial assets with agreement of resale | 12,256,373 | - | - | - | - | 12,256,373 |
| Financial assets at fair value through profit or loss | 2,115,175 | 2,632,129 | 3,656,670 | 2,299,151 | 2,408,235 | 13,111,360 |
| Financial assets available for sale | 2,049,045 | 611,988 | 286,046 | 1,782,082 | 4,067,097 | 8,796,258 |
| Derivative financial instruments | 526,339 | 434,027 | 488,546 | 31,833 | 308,680 | 1,789,425 |
| Loans and receivables | 23,440,685 | 18,351,955 | 29,991,385 | 6,867,665 | 144,188 | 78,795,878 |
| Current tax assets | - | 1,100,989 | - | - | - | 1,100,989 |
| Asset deferred taxes | - | 922,521 | 737,197 | 157,378 | 223,585 | 2,040,681 |
| Long-term assets held for sale | - | - | - | - | 87,330 | 87,330 |
| Tangible assets | 130,328 | - | - | - | - | 130,328 |
| Intangible assets | 22,043 | - | - | - | - | 22,043 |
| Other assets | 1,610,449 | - | - | - | - | 1,610,449 |
| Total | 43,650,418 | 24,053,609 | 35,159,844 | 11,138,109 | 7,239,115 | 121,241,095 |
| Liabilities | | | | | | |
| Financial liabilities at fair value through profit or loss | 992,219 | 1,563,591 | 53,252 | 1,362 | 13,553 | 2,623,977 |
| Financial liabilities at amortized cost | 11,028,262 | 18,043,696 | 4,834,359 | 92,124 | - | 33,998,441 |
| Financial liabilities associated with transferred assets | 5,451,843 | 3,246,686 | 6,245,845 | 379,368 | 13,002 | 15,336,744 |
| Financial institution deposits | 304,094 | 338,993 | 75,196 | 6,860 | 1,123 | 726,266 |
| Client deposits | 5,384,904 | 12,324,664 | 5,126,658 | 26,165 | 9,299 | 22,871,690 |
| Loans and onlendings | 1,727,396 | 4,610,034 | 4,227,282 | 648,853 | 40,915 | 11,254,480 |
| Securities issued | 767,322 | 3,436,904 | 5,434,742 | 1,121,741 | 492,173 | 11,252,882 |
| Derivative financial instruments | 358,278 | 741,668 | 609,892 | 109,237 | 75,546 | 1,894,621 |
| Subordinated liabilities | - | 1,451,075 | 1,610,252 | 1,551,465 | 2,291,470 | 6,904,262 |
| Provisions | - | - | - | - | 113,691 | 113,691 |
| Current tax liabilities | - | 611,640 | - | - | - | 611,640 |
| Deferred tax liabilities | - | 550,550 | 614,156 | - | - | 1,164,706 |
| Dividends payable | - | 142,240 | - | - | - | 142,240 |
| Legal obligations | - | - | - | - | 1,400,348 | 1,400,348 |
| Other liabilities | - | 3,139,144 | - | - | - | 3,139,144 |
| Stockholders' equity | - | - | - | - | 7,805,963 | 7,805,963 |
| Total | 26,014,318 | 50,200,885 | 28,831,634 | 3,937,175 | 12,257,083 | 121,241,095 |

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(In thousands of Reais)

| | 2009 | | | | | |
|--|--------------------------|--------------------------|--------------------------|-------------------------|--------------------------|--------------------------|
| | 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 | 9,121,617 | - | - | - | - | 9,121,617 |
| Financial assets with agreement of resale | 12,546,100 | - | - | - | - | 12,546,100 |
| Financial assets at fair value through profit or loss | 1,863,618 | 1,377,876 | 5,101,859 | 1,276,766 | 821,960 | 10,442,079 |
| Financial assets available for sale | 310,958 | 164,809 | 605,549 | 312,067 | 3,430,125 | 4,823,508 |
| Derivative financial instruments | 412,857 | 418,341 | 191,949 | 364,502 | 134,022 | 1,521,671 |
| Loans and receivables | 8,782,777 | 12,828,854 | 22,482,424 | 3,028,445 | 2,002,540 | 49,125,040 |
| Current tax assets | - | 679,306 | - | - | - | 679,306 |
| Asset deferred taxes | - | 602,524 | 767,833 | 133,951 | 142,824 | 1,647,132 |
| Long-term assets held for sale | - | - | - | - | 64,316 | 64,316 |
| Tangible assets | 101,978 | - | - | - | - | 101,978 |
| Intangible assets | 5,149 | - | - | - | - | 5,149 |
| Other assets | 601,796 | - | - | - | - | 601,796 |
| Total | <u>33,746,850</u> | <u>16,071,710</u> | <u>29,149,614</u> | <u>5,115,731</u> | <u>6,595,787</u> | <u>90,679,692</u> |
| Liabilities | | | | | | |
| Financial liabilities at fair value through profit or loss | 175,181 | 165,047 | 40,269 | 502 | 229 | 381,228 |
| Financial liabilities at amortized cost | 9,920,082 | 10,208,325 | 5,593,183 | 1,866,264 | 16,078 | 27,603,932 |
| Financial liabilities associated with transferred assets | 2,782,031 | 1,532,900 | 2,636,232 | 141,621 | 62,579 | 7,155,363 |
| Financial institution deposits | 1,181,908 | 498,929 | - | 57,586 | 2,619 | 1,741,042 |
| Client deposits | 3,851,950 | 14,674,069 | 3,964,524 | 230,062 | 15,274 | 22,735,879 |
| Loans and onlendings | 372,632 | 3,302,812 | 1,828,085 | 885,448 | 913,778 | 7,302,755 |
| Securities issued | 1,745,300 | 396,782 | 2,210,469 | 1,961,641 | 821,965 | 7,136,157 |
| Derivative financial instruments | 391,826 | 401,724 | 189,056 | 164,846 | 124,016 | 1,271,468 |
| Subordinated liabilities | - | - | - | 2,927,816 | 1,439,005 | 4,366,821 |
| Provisions | - | - | - | - | 81,329 | 81,329 |
| Current tax liabilities | - | 634,147 | - | - | - | 634,147 |
| Deferred tax liabilities | - | 356,268 | 397,427 | - | - | 753,695 |
| Dividends payable | - | 195,145 | - | - | - | 195,145 |
| Legal obligations | - | - | - | - | 1,046,422 | 1,046,422 |
| Other liabilities | - | 1,342,421 | - | - | - | 1,342,421 |
| Stockholders' equity | - | - | - | - | 6,931,888 | 6,931,888 |
| Total | <u>20,420,910</u> | <u>33,708,569</u> | <u>16,859,245</u> | <u>8,235,786</u> | <u>11,455,182</u> | <u>90,679,692</u> |

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”.

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(In thousands of Reais)

On December 31, 2010 the profile of the interest-bearing financial instruments of the Conglomerate was:

Instruments with prefixed rate

| | |
|-----------------------|------------|
| Financial assets | 29,539,851 |
| Financial liabilities | 38,270,528 |

Instruments with post-fixed rate

| | |
|-----------------------|------------|
| Financial assets | 71,409,948 |
| Financial liabilities | 56,007,157 |

On December 31, 2010 and 2009, the portfolio of credit commitments by corporate/personal guarantees and other guarantees, recorded in memorandum accounts, was:

| | 2010 | 2009 |
|---|-------------|-------------|
| Corporate guarantees and other guarantees | 19,897,764 | 11,142,904 |

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

| Asset position | 2010 | 2009 |
|--|------------------|------------------|
| Transactions in stock exchanges | <u>441,016</u> | <u>289,097</u> |
| Over-the-counter | <u>1,348,409</u> | <u>1,232,574</u> |
| Financial institutions | 1,307,537 | 457,610 |
| Clients | <u>40,872</u> | <u>774,964</u> |
| Total | <u>1,789,425</u> | <u>1,521,671</u> |

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(In thousands of Reais)

| Liability position | 2010 | 2009 |
|--|------------------|------------------|
| Transactions in stock exchanges | <u>637,407</u> | <u>463,493</u> |
| Over-the-counter | <u>1,257,214</u> | <u>807,975</u> |
| Financial institutions | 1,063,416 | 766,513 |
| Clients | 193,798 | 41,462 |
| Total | <u>1,894,621</u> | <u>1,271,468</u> |

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

| | 2010 | 2009 |
|---------------------------------------|------------------|------------------|
| Transactions in stock exchange | <u>1,815,813</u> | <u>1,805,900</u> |
| National Treasury Notes | 1,811,045 | 1,489,622 |
| Financial Treasury Bills | 4,768 | 7,621 |
| Federal Treasury Bills | - | 308,657 |
| Clearing house transactions | <u>71,383</u> | <u>118,398</u> |
| National Treasury Notes | 26,081 | 20,533 |
| Financial Treasury Bills | 24,288 | - |
| Federal Treasury Bills | 21,014 | 97,865 |
| Others | <u>2,951,207</u> | <u>1,100,010</u> |
| National Treasury Notes | 84,286 | - |
| Financial Treasury Bills | 12,985 | 3,155 |
| Others (a) | 2,853,936 | 1,096,855 |
| Total | <u>4,838,403</u> | <u>3,024,308</u> |

(a) In 2010 basically concerning instruments of foreign governments, amounting to R\$1,546,455, and other instruments abroad, amounting to R\$1,307,481.

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Explanatory notes to the financial statements

(In thousands of Reais)

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

| | 2010 | | |
|--|---------------------------|-----------------------------|--------------------|
| | Local currency | Foreign currency | Total |
| Assets | | | |
| Cash and cash equivalents | 1,330,553 | 169,428 | 1,499,981 |
| Financial assets with agreement for resale | 12,256,373 | - | 12,256,373 |
| Financial assets at fair value through profit or loss | 9,590,697 | 3,520,663 | 13,111,360 |
| Financial assets available for sale | 7,467,309 | 1,328,949 | 8,796,258 |
| Derivative financial instruments | 736,877 | 1,052,548 | 1,789,425 |
| Loans and receivables | 76,879,332 | 1,916,546 | 78,795,878 |
| Current tax assets | 1,100,989 | - | 1,100,989 |
| Asset deferred taxes | 2,040,681 | - | 2,040,681 |
| Long-term assets held for sale | 87,330 | - | 87,330 |
| Tangible assets | 130,328 | - | 130,328 |
| Intangible assets | 22,043 | - | 22,043 |
| Other assets | <u>1,610,449</u> | <u>-</u> | <u>1,610,449</u> |
| Total | <u>113,252,961</u> | <u>7,988,134</u> | <u>121,241,095</u> |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss | 2,623,977 | - | 2,623,977 |
| Financial liabilities at amortized cost | 33,998,441 | - | 33,998,441 |
| Financial liabilities associated with transferred assets | 15,336,744 | - | 15,336,744 |
| Financial institution deposits | 726,266 | - | 726,266 |
| Client deposits | 22,871,690 | - | 22,871,690 |
| Loans and onlendings | 6,995,693 | 4,258,787 | 11,254,480 |
| Securities issued | 8,739,234 | 2,513,648 | 11,252,882 |
| Derivative financial instruments | 1,894,621 | - | 1,894,621 |
| Subordinated liabilities | 5,018,578 | 1,885,684 | 6,904,262 |
| Provisions | 113,691 | - | 113,691 |
| Current tax liabilities | 611,640 | - | 611,640 |
| Deferred tax liabilities | 1,164,706 | - | 1,164,706 |
| Dividends payable | 142,240 | - | 142,240 |
| Legal obligations | 1,400,348 | - | 1,400,348 |
| Other liabilities | 3,139,144 | - | 3,139,144 |
| Stockholders' equity | <u>7,805,963</u> | <u>-</u> | <u>7,805,963</u> |
| Total | <u>112,582,976</u> | <u>8,658,119</u> | <u>121,241,095</u> |

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(In thousands of Reais)

| | 2009 | | |
|--|---------------------------|-----------------------------|--------------------------|
| | Local currency | Foreign currency | Total |
| Assets | | | |
| Cash and cash equivalents | 8,750,479 | 371,138 | 9,121,617 |
| Financial assets with agreement for resale | 12,546,100 | - | 12,546,100 |
| Financial assets at fair value through profit or loss | 7,976,612 | 2,465,467 | 10,442,079 |
| Financial assets available for sale | 3,899,474 | 924,034 | 4,823,508 |
| Derivative financial instruments | 360,159 | 1,161,512 | 1,521,671 |
| Loans and receivables | 48,488,033 | 637,007 | 49,125,040 |
| Current tax assets | 679,306 | - | 679,306 |
| Asset deferred taxes | 1,647,132 | - | 1,647,132 |
| Long-term assets held for sale | 64,316 | - | 64,316 |
| Tangible assets | 101,978 | - | 101,978 |
| Intangible assets | 5,149 | - | 5,149 |
| Other assets | <u>601,796</u> | <u>-</u> | <u>601,796</u> |
| Total | <u>85,120,534</u> | <u>5,559,158</u> | <u>90,679,692</u> |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss | 381,228 | - | 381,228 |
| Financial liabilities at amortized cost | 27,603,932 | - | 27,603,932 |
| Financial liabilities associated with transferred assets | 7,155,363 | - | 7,155,363 |
| Financial institution deposits | 1,741,042 | - | 1,741,042 |
| Client deposits | 20,633,625 | 2,102,254 | 22,735,879 |
| Loans and onlendings | 7,302,755 | - | 7,302,755 |
| Securities issued | 4,786,231 | 2,349,926 | 7,136,157 |
| Derivative financial instruments | (123,332) | 1,394,800 | 1,271,468 |
| Subordinated liabilities | 4,366,821 | - | 4,366,821 |
| Provisions | 81,329 | - | 81,329 |
| Financial institution deposits | 634,147 | - | 634,147 |
| Deferred tax liabilities | 753,695 | - | 753,695 |
| Dividends payable | 195,145 | - | 195,145 |
| Legal obligations | 1,046,422 | - | 1,046,422 |
| Other liabilities | 1,342,421 | - | 1,342,421 |
| Stockholders' equity | <u>6,931,888</u> | <u>-</u> | <u>6,931,888</u> |
| Total | <u>84,832,712</u> | <u>5,846,980</u> | <u>90,679,692</u> |

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(In thousands of Reais)

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, presenting the amounts observed on each base date:

- Scenario 1 - Consists of the probable scenario for the risk factors and is based on the referential information by the BM&F BOVESPA and ANBIMA (Brazilian Financial and Capital Markets Association) on the market used.
- Scenario 2 - Scenario with a 25% shock on the probable market scenario, provided by the Market Risk Department, according to an internal norm for 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, provided by the Market Risk Department, according to an internal norm for the pricing of assets and economic analysis, which is consistent with best market practices.

2010 Scenario I

| Risk factor | Concept | Rates variance | Result |
|--|---|----------------|-------------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Neutral | - |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Increase | 84,994 |
| Foreign exchange variance | Risk of variance of the foreign exchange rates | Increase | (1,380,765) |
| Price indices | Risk of variance of price indices coupons | Increase | (4,807) |
| TR/TBF (Referential Rate/Basic Financial Rate) | Risk of variance of TR and TBF coupons | Increase | (851) |
| Others | Risk of variance of other coupons | Increase | (24,443) |

2010 Scenario II

| Risk factor | Concept | Rates variance | Result |
|---------------------------|---|----------------|-------------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Reduction | (1,211,761) |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Reduction | (223,796) |
| Foreign exchange variance | Risk of variance of the foreign exchange rates | Increase | (1,465,038) |
| Price indices | Risk of variance of price indices coupons | Increase | (17,044) |
| TR/TBF | Risk of variance of TR and TBF coupons | Increase | (5,945) |
| Others | Risk of variance of other coupons | Reduction | (42,403) |

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(In thousands of Reais)

2010 Scenario III

| Risk factor | Concept | Rates variance | Result |
|---------------------------|---|-------------------|-------------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Reduction | (2,475,278) |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Reduction | (334,147) |
| Foreign exchange variance | Risk of variance of the foreign exchange rates | Increase | (2,051,286) |
| Price indices | Risk of variance of price indices coupons | Increase | (28,997) |
| TR/TBF | Risk of variance of TR and TBF coupons | Increase | (10,483) |
| Others | Risk of variance of other coupons | Reduction | (415,735) |

2009 Scenario I

| Risk factor | Concept | Rates variance | Result |
|---------------------------|---|-------------------|-----------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Increase | (143,182) |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Increase | - |
| Foreign exchange variance | Risk of variance of the foreign exchange rates | Increase | (75,435) |
| Price indices | Risk of variance of price indices coupons | Increase | (46,908) |
| TR/TBF | Risk of variance of TR and TBF coupons | Increase | (9,781) |
| Others | Risk of variance of other coupons | Increase | 3,135 |

2009 Scenario II

| Risk factor | Concept | Rates variance | Result |
|---------------------------|---|-------------------|-----------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Increase | (326,616) |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Increase | - |
| Foreign exchange variance | Risk of variance of the foreign exchange rates | Increase | (323,120) |
| Price indices | Risk of variance of price indices coupons | Increase | (96,030) |
| TR/TBF | Risk of variance of TR and TBF coupons | Increase | (15,820) |
| Others | Risk of variance of other coupons | Reduction | (1,809) |

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(In thousands of Reais)

2009 Scenario III

| Risk factor | Concept | Rates variance | Result |
|---------------------------|---|----------------|-----------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Increase | (481,562) |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Increase | - |
| Foreign exchange variance | Risk of variance of the foreign exchange rates | Increase | (561,511) |
| Price indices | Risk of variance of price indices coupons | Increase | (139,799) |
| TR/TBF | Risk of variance of TR and TBF coupons | Increase | (21,165) |
| Others | Risk of variance of other coupons | Reduction | (9,299) |

For transactions classified in the Non-Trading Portfolio, appreciation or depreciation resulting from changes of interest rates practiced in the market does not represent a significant financial and account impact on the results of the Bank. 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. In addition, one stresses the fact that these portfolios shows as a principal characteristic the intention of maintaining the relevant positions up to maturity, thus not incurring the effects of the fluctuations of interest rates, or due to the fact that these transactions are naturally pegged to other instruments (natural hedge), thereby minimizing the impacts in a stressful scenario.

The tables below show a summary of the results for the Trading and Non-Trading (Banking) Portfolio, presenting the amounts observed on each base date:

2010 Scenario I

| Risk factor | Concept | Rates variance | Result |
|-------------------------------|---|----------------|--------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Reduction | - |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Increase | - |
| Foreign exchange variance (1) | Risk of variance of the foreign exchange rates | Reduction | - |
| TJLP | Risk of variance of TJLP coupons | Reduction | - |
| TR/TBF | Risk of variance of TR and TBF coupons | Reduction | - |
| Price indices | Risk of variance of price indices coupons | Increase | - |

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2010 Scenario II

| Risk factor | Concept | Rates variance | Result |
|-------------------------------|---|----------------|--------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Increase | - |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Increase | - |
| Foreign exchange variance (1) | Risk of variance of the foreign exchange rates | Reduction | - |
| TJLP | Risk of variance of TJLP coupons | Reduction | - |
| TR/TBF | Risk of variance of TR and TBF coupons | Reduction | - |
| Price indices | Risk of variance of price indices coupons | Increase | - |

(1) Amounts net of tax effects.

2009 Scenario I

| Risk factor | Concept | Rates variance | Result |
|-------------------------------|---|----------------|--------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Reduction | - |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Increase | - |
| Foreign exchange variance (1) | Risk of variance of the foreign exchange rates | Reduction | - |
| TJLP | Risk of variance of TJLP coupons | Reduction | - |
| TR/TBF | Risk of variance of TR and TBF coupons | Reduction | - |
| Price indices | Risk of variance of price indices coupons | Increase | - |

2009 Scenario II

| Risk factor | Concept | Rates variance | Result |
|-------------------------------|---|----------------|--------|
| Prefixed rate | Risk of variance of the prefixed interest rates | Increase | - |
| Foreign currency coupons | Risk of variance of foreign exchange coupons | Increase | - |
| Foreign exchange variance (1) | Risk of variance of the foreign exchange rates | Reduction | - |
| TJLP | Risk of variance of TJLP coupons | Reduction | - |
| TR/TBF | Risk of variance of TR and TBF coupons | Reduction | - |
| Price indices | Risk of variance of price indices coupons | Increase | - |

(1) Amounts net of tax effects.

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The accounting balances of the assets and liabilities are close to their corresponding fair value, as these transactions are based on rates that are traded and practiced in the market. The fair values of the financial assets and liabilities, together with the Book values shown in the balance sheet, are the following:

| | 2010 | | |
|--|--------------------|--------------------|-------------------|
| | Book value | Fair value | Difference |
| Assets | | | |
| Cash and cash equivalents | 1,499,981 | 1,499,981 | - |
| Financial assets with agreement for resale | 12,256,373 | 12,256,373 | - |
| Financial assets at fair value through profit or loss | 13,111,360 | 13,111,360 | - |
| Financial assets available for sale | 8,796,258 | 8,796,258 | - |
| Financial assets held to maturity | - | - | - |
| Derivative financial instruments | 1,789,425 | 1,789,425 | - |
| Loans and receivables | <u>78,795,878</u> | <u>78,795,878</u> | - |
| Total | <u>116,249,275</u> | <u>116,249,275</u> | <u>-</u> |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss | 2,623,977 | 2,623,977 | - |
| Financial liabilities at amortized cost | 33,998,441 | 33,998,441 | - |
| Financial liabilities associated w/ transferred assets | 15,336,744 | 15,336,744 | - |
| Financial institution deposits | 726,266 | 726,266 | - |
| Client deposits | 22,871,690 | 22,871,690 | - |
| Loans and onlendings | 11,254,480 | 11,254,480 | - |
| Securities issued | 11,252,882 | 11,252,882 | - |
| Derivative financial instruments | 1,894,621 | 1,894,621 | - |
| Subordinated liabilities | <u>6,904,262</u> | <u>6,904,262</u> | - |
| Total | <u>106,863,363</u> | <u>106,863,363</u> | <u>-</u> |

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| | 2009 | | |
|--|-------------------|-------------------|-------------------|
| | Book value | Fair value | Difference |
| Assets | | | |
| Cash and cash equivalents | 9,121,617 | 9,121,617 | - |
| Financial assets with agreement for resale | 12,546,100 | 12,546,100 | - |
| Financial assets at fair value through profit or loss | 10,442,079 | 10,442,079 | - |
| Financial assets available for sale | 4,823,508 | 4,823,508 | - |
| Derivative financial instruments | 1,521,671 | 1,521,671 | - |
| Loans and receivables | <u>49,125,040</u> | <u>49,125,040</u> | - |
| Total | <u>87,580,015</u> | <u>87,580,015</u> | - |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss | 381,228 | 381,228 | - |
| Financial liabilities at amortized cost | 27,603,932 | 27,603,932 | - |
| Financial liabilities associated w/ transferred assets | 7,155,363 | 7,155,363 | - |
| Financial institution deposits | 1,741,042 | 1,741,042 | - |
| Client deposits | 22,735,879 | 22,735,879 | - |
| Loans and onlendings | 7,302,755 | 7,302,755 | - |
| Securities issued | 7,136,157 | 7,136,157 | - |
| Derivative financial instruments | 1,271,468 | 1,271,468 | - |
| Subordinated liabilities | <u>4,366,821</u> | <u>4,366,821</u> | - |
| Total | <u>79,694,645</u> | <u>79,694,645</u> | - |

g. Fair value hierarchy

The table below shows financial instruments recorded at fair value on December 31, 2010, using an evaluation 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).
- Level 3: Assumptions that are based on market data that are observable (non-observable inputs).

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| | Level 1 | Level 2 | Level 3 |
|---|-------------------|-------------------|----------------|
| Assets | | | |
| Financial assets at fair value through profit or loss | 9,896,825 | 3,214,535 | - |
| Financial assets available for sale | 5,199,733 | 3,596,525 | - |
| Derivative financial instruments | 1,431,267 | - | 358,158 |
| Loans and receivables | <u>-</u> | <u>70,619,820</u> | <u>-</u> |
| Total | <u>16,527,825</u> | <u>77,430,880</u> | <u>358,158</u> |
| Liabilities | | | |
| Derivative financial instruments | <u>1,590,541</u> | <u>-</u> | <u>304,081</u> |
| Total | <u>1,590,541</u> | <u>-</u> | <u>304,081</u> |

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 the 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 evaluation techniques. These evaluation 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.

If one or more of the elements of relevant information are not based on data adopted by the market, the instrument is included in Level 3.

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46 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.

47 Norms and interpretations that will become effective after December 31, 2010

The Conglomerate has not yet adopted the following IFRS or new or revised interpretations, that were issued but that will become effective after the date of these financial statements:

- **IFRS 9** - Financial Instruments: Recognition and Measurement - The principal changes in IFRS 9 in comparison with IAS 39 are: (i) All of the recognized financial assets that are presently within the scope of IAS 39 will be measured by their amortized cost or by their fair value; (ii) IFRS 9 does not have the same concept of built-in derivatives for hybrid contracts of IAS 39 if the principal contract is a financial asset within the scope of IFRS 9; (iii) the guidelines of IFRS 9 maintained the classification of the criterion for financial liabilities that were in IAS 39. However, there are two main differences, which are related to presentation and measurement in comparison with IAS 39: (a) presentation of the effects in the changes in fair value attributable to the credit risk of the liability; and (b) elimination of the exemption of the cost for the derivative liabilities that will be settled through delivery of non-quoted equity instruments. This norm is effective for the annual periods beginning on or after January 1, 2013.

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- **Alteration of IAS 32** - Classification for the rights of issuance: when not falling under the definition of equity instruments in IAS 32.11 - issued to acquire a fixed number of an equity instrument of a proprietary entity, which is not a derivative for a fixed amount in any currency are classified as equity instruments, provided that the offering is made proportionately for all of the current owners of the same class of equity instruments of a proprietary entity that is not a derivative.

Alteration of IAS 39 - Eligible hedge items - This alteration clarifies how to determine which part may be designated as hedge related to inflation and to options.

Improvements on IFRS norms were issued in May 2010. These improvements contain various amendments to the IFRSs that the IASB does not consider urgent but necessary. "Improvements for IFRS" comprises alterations that result in accounting changes for the purpose of presentation, recognition or measurement, as well as terminologies or alterations related to various IFRS norms. Most of the alterations are effective as of January 1, 2011.

Alteration for IFRS 3 - (1) measurement of equity participation of non-controlling shareholders clarifies that the option of not measuring non-controlling participations at fair value or the proportionate participation of the net identifiable assets on the date of acquisition according to IFRS 3 applies only for non-controlling participations that are current equity participations and entitles the owners to a proportionate participation of the net assets of the invested entity in the event of liquidation. All other components of interest of non-controlling shareholders must be measured at the fair value on the date of acquisition, unless another measurement base is required by the IFRS; (2) Payment of a premium based on shares that is non-substitutable or is substitutable voluntarily, specifies that the current requirement for measuring the premiums of an acquirer that substitutes the transaction of the payment based on shares of the acquired party according to IFRS 2 on the date of acquisition (measured on a market basis) also applies to transactions of payments based on shares of the acquired party that are not substitutable and also clarifies that the current requirement for allocation of the measurement based on the market value of substitutable premiums between the transferred payment for the business combination and the post-combination remuneration applied to all of the substitutable premiums, irrespective of whether the acquirer is required to substitute the premium or does so voluntarily; (3) transitional requirements for the continuation of contingencies of a combination of business transactions that occurred prior to the date clarifies that IAS 32, IAS 39 and IFRS 7 does not apply for considerations of contingencies that derived from a combination of businesses when the date of application precedes the application of IFRS 3.

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Alteration of IFRS 7 - Clarifications on disclosure: encourages qualitative disclosures within the context of requirement of quantitative disclosures to assist users in developing an overall image of the nature and extent of the risks that derive from financial instruments.

Alteration of IAS 1 - Clarifications on the changes in the Statement of Stockholders' Equity: clarifies that an entity can present the analysis of other revenues and expenses recognized by item, whether in the DMPL (Statement of Income) or in the explanatory notes.

Alteration of IAS 27 - Requirements for the transition to the updating of IAS 27: clarifies that the updating made for IAS 21, IAS 28 and IAS 31 as a result of IAS 27 must be applied prospectively (except for paragraph 35 of IAS 28 and paragraph 46 of IAS 31) in which it must be applied retrospectively.

Alteration of IAS 34 - Significant events and transactions: emphasizes the principle of IAS 34 that the disclosure of significant events and transactions in the interim periods must update the relevant information presented in the most recent annual Financial Statements and also clarifies how to apply the principles concerning the financial instruments and their relevant fair values.

Alteration of IFRIC 13 - Fair value of credit granted: clarifies that the fair value of credit granted must take into consideration: (1) the amount of discounts or incentives that were offered to clients that did not have any credit granted in an initial sale, and (2) any expected cancellations.

Alteration of IFRIC 14 - The limit of a Defined Benefit asset, Minimum Contribution Requisites and their Interaction - This IFRIC was altered to remedy a non-intentional consequence of IFRIC 14, where the entities are not permitted in certain circumstances to recognize advances of minimum financing contributions, as an asset. Entities should apply this construal prospectively for annual periods beginning on January 1, 2011 or subsequently.

The Conglomerate believes that the adoption of the abovementioned norms and interpretations will not have a significant effect on the consolidated financial statements as a whole, except for IFRS 9, for which the Bank is analyzing the impacts deriving from the adoption of this norm.